

ENVESTNET, INC.  
Form 10-K  
March 01, 2019  
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

---

FORM 10-K

---

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the year ended December 31, 2018  
“TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934  
Commission file number 001-34835

---

Investnet, Inc.  
(Exact name of registrant as specified in its charter)

---

Delaware 20-1409613  
(State or other jurisdiction of (I.R.S Employer  
incorporation or organization) Identification No.)

35 East Wacker Drive, Suite 2400, Chicago, IL 60601  
(Address of principal executive offices) (Zip Code)  
Registrant’s telephone number, including area code:  
(312) 827-2800

Securities registered pursuant to Section 12(b) of the Act:  
Title of Each Class: Name of Each Exchange on Which Registered:  
Common stock, par value \$0.005 per share NYSE

Securities registered pursuant to Section 12(g) of the Act:  
None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No “

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes “ No ý

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No “

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ý No “

Edgar Filing: ENVESTNET, INC. - Form 10-K

Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrants knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

Table of Contents

Aggregate market value of registrant's common stock held by non-affiliates of the registrant, based upon the closing price of a share of the registrant's common stock on June 30, 2018 as reported on The New York Stock Exchange on that date: \$1,507,416,864. For purposes of this calculation, shares of common stock held by (i) persons holding more than 5% of the outstanding shares of stock, and (ii) officers and directors of the registrant, as of June 30, 2018, are excluded in that such persons may be deemed to be affiliates. This determination is not necessarily conclusive of affiliate status.

As of February 22, 2019, 48,149,473 shares of the common stock with a par value of \$0.005 per share were outstanding.

Table of Contents

## TABLE OF CONTENTS

	Page
PART I	
<u>Forward Looking Statements</u>	<u>4</u>
<u>Item 1. Business</u>	<u>6</u>
<u>Item 1A. Risk Factors</u>	<u>19</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>37</u>
<u>Item 2. Properties</u>	<u>37</u>
<u>Item 3. Legal Proceedings</u>	<u>38</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>38</u>
PART II	
<u>Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>38</u>
<u>Item 6. Selected Financial Data</u>	<u>40</u>
<u>Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>41</u>
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>71</u>
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>73</u>
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>121</u>
<u>Item 9A. Controls and Procedures</u>	<u>121</u>
<u>Item 9B. Other Information</u>	<u>122</u>
PART III	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>123</u>
<u>Item 11. Executive Compensation</u>	<u>123</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>123</u>
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	<u>123</u>
<u>Item 14. Principal Accountant Fees and Services</u>	<u>123</u>
PART IV	
<u>Item 15. Exhibits and Financial Statement Schedules</u>	<u>124</u>
<u>Item 16. Summary</u>	<u>124</u>
<u>SIGNATURES</u>	<u>128</u>

Table of Contents

Forward Looking Statements

Unless the context requires otherwise, the words “Envestnet,” “the Company,” “we,” “us” and “our” are references to Envestnet, Inc. and its subsidiaries as a whole.

This annual report on Form 10 K contains forward looking statements regarding future events and our future results within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These forward looking statements include, in particular, statements about our plans, strategies and prospects under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations”. These statements are based on our current expectations and projections about future events and are identified by terminology such as “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “expected,” “intend,” “will,” “may,” or negative of those terms or variations of such words, and similar expressions are intended to identify such forward looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our business and other characteristics of future events or circumstances are forward looking statements. These forward looking statements involve risks and uncertainties. Important factors that could cause actual results to differ materially from the forward looking statements we make in this annual report are set forth in Part I under “Risk Factors”; accordingly, investors should not place undue reliance upon our forward looking statements. Factors that may cause our actual results to differ materially from our forward looking statements may include, among others, statements relating to:

- difficulty in sustaining rapid revenue growth, which may place significant demands on our administrative, operational and financial resources;
- our ability to successfully identify potential acquisition candidates, complete acquisitions and successfully integrate acquired companies;
- our ability to successfully execute the conversion of clients’ assets from their technology platform to our technology platforms in a timely and accurate manner;
- the amount of our debt and our ability to service our debt;
- the variability of our revenue from period to period;
  - the targeting of some of our sales efforts at large financial institutions and large Internet services companies which prolongs sales cycles, requires substantial upfront sales costs and results in less predictability in completing some of our sales;
- the deployment of our solutions by customers and potential delays and risks inherent in the process;
- the competitiveness of our solutions and services as compared to those of others;
- the concentration of our revenues from the delivery of our solutions and services to clients in the financial services industry;
- our reliance on a limited number of clients for a material portion of our revenue;
- the impact of fluctuations in market conditions and interest rates on the demand for our products and services and the value of assets under management or administration;
- changes in investing patterns on the assets on which we derive revenue;
- the renegotiation of fees by our clients;
- our ability to introduce new solutions and services;
- our ability to maintain the security and integrity of our systems and facilities and to maintain the privacy of personal information and potential liabilities for data security breaches;
- the effect of privacy regulations on how we operate our business;
- liabilities associated with potential, perceived or actual breaches of fiduciary duties and/or conflicts of interest;
- failure of our solutions, services or systems, or those of third parties on which we rely, to work properly;
- the failure of our insurance to adequately protect us;
- our dependence on our senior management team;
- our ability to recruit and retain qualified employees;
- regulatory compliance failures;

- changes in laws and regulations, including tax laws and regulations;
- adverse judicial or regulatory proceedings against us;
- the failure to protect our intellectual property rights;
- potential claims by third parties for infringement of their intellectual property rights;
- risks associated with our international operations;
- the impact of fluctuations in interest rates and turmoil in market conditions on our cost of borrowing and access to additional capital;
- the impact of fluctuations in foreign currency exchange rates;

Table of Contents

- the uncertainty of the application and interpretation of certain tax laws;
- changes in accounting principles and standards;
- issuances of additional shares of common stock or issuances of shares of preferred stock or convertible securities on our existing stockholders;
- general economic conditions, political and regulatory conditions; and
- management's response to these factors.

More information on these important factors that could cause actual results to differ materially from the forward looking statements we make in this annual report are set forth in Part I under "Risk Factors." In addition, there may be other factors of which we are presently unaware or that we currently deem immaterial that could cause our actual results to be materially different from the results referenced in the forward looking statements. All forward looking statements contained in this annual report and documents incorporated herein by reference are qualified in their entirety by this cautionary statement. Forward looking statements speak only as of the date they are made, and we do not intend to update or otherwise revise the forward looking statements to reflect events or circumstances after the date of this annual report or to reflect the occurrence of unanticipated events, except as required by applicable law. If we do update one or more forward looking statements, no inference should be made that we will make additional updates with respect to those or other forward looking statements.

Although we believe that our plans, intentions and expectations are reasonable, we may not achieve our plans, intentions or expectations.

You should read this annual report on Form 10 K completely and with the understanding that our actual future results, levels of activity, performance and achievements may be different from what we expect and that these differences may be material. We qualify all of our forward looking statements by these cautionary statements.

The following discussion and analysis should also be read along with our consolidated financial statements and the related notes included elsewhere in this annual report. Except for the historical information contained herein, this discussion contains forward looking statements that involve risks and uncertainties. Actual results could differ materially from those discussed below.

Except where we have otherwise indicated or the context otherwise requires, dollar amounts presented in this Form 10 K are in thousands, except for the Report of Independent Registered Public Accounting Firm, Exhibits and per share amounts.

## Table of Contents

### Item 1. Business

#### General

Investnet is a leading provider of intelligent systems for wealth management and financial wellness. Investnet's unified technology enhances advisor productivity and strengthens the wealth management process. Investnet empowers enterprises and advisors to more fully understand their clients and deliver better outcomes.

More than 3,500 companies, including 15 of the 20 largest U.S. banks, 43 of the 50 largest wealth management and brokerage firms, over 500 of the largest registered investment advisers ("RIA"), and hundreds of Internet services companies, leverage Investnet technology and services. Investnet solutions enhance knowledge of the client, accelerate client on-boarding, improve client digital experiences, and help drive better outcomes for enterprises, advisors and their clients.

Founded in 1999, Investnet has been a leader in helping transform wealth management, working towards its goal of building a holistic financial wellness network that supports enterprises, advisors and their clients.

Through a combination of platform enhancements, partnerships and acquisitions, Investnet uniquely provides a financial network connecting software, services and data, delivering better intelligence and enabling its customers to drive better outcomes.

Investnet serves clients from its headquarters based in Chicago, Illinois, as well as other locations throughout the United States, India and other international locations.

#### Segments

Investnet is organized around two primary, complementary business segments. Financial information about each business segment is contained in "Note 21 – Segment Information" to the notes to consolidated financial statements in Part II, Item 8. Our business segments are as follows:

Investnet – a leading provider of unified wealth management software and services to empower financial advisors and institutions.

Investnet | Yodlee – a leading data aggregation and data intelligence platform powering dynamic, cloud-based innovation for digital financial services.

#### Investnet Segment

Investnet empowers financial advisors at broker-dealers, banks and RIAs with all the tools they require to deliver holistic wealth management to their end clients. In addition, the firm provides advisors with practice management support so that they can grow their practices and operate more efficiently. At the end of 2018, Investnet's platform assets grew to approximately \$2 trillion in nearly 11 million accounts overseen by more than 96 thousand advisors. Services provided to advisors include: financial planning, risk assessment tools, investment strategies and solutions, asset allocation models, research, portfolio construction, proposal generation and paperwork preparation, model management and account rebalancing, account monitoring, customized fee billing, overlay services covering asset allocation, tax management and socially responsible investing, aggregated multi-custodian performance reporting and communication tools, plus data analytics. Investnet has access to a wide range of leading third-party asset custodians. We offer these solutions principally through the following product/services suites:

Investnet | Enterprise – provides an end-to-end open architecture wealth management platform, through which advisors can construct portfolios for clients. It begins with aggregated household data which then leads to a financial plan, asset allocation, investment strategy, portfolio management, rebalancing and performance reporting. Advisors have access to over 19,100 investment products. Investnet | Enterprise also sells data aggregation and reporting, data analytics and digital advice capabilities to customers.

Investnet | Tamarac™ provides leading trading, rebalancing, portfolio accounting, performance reporting and client relationship management software, principally to high-end RIAs.



Table of Contents

Envestnet | Retirement Solutions (“ERS”) offers a comprehensive suite of services for advisor-sold retirement plans. Leveraging integrated technology, ERS addresses the regulatory, data, and investment needs of retirement plans and delivers the information holistically.

Envestnet | PMC®, or Portfolio Management Consultants (“PMC”) – provides research and consulting services to assist advisors in creating investment solutions for their clients. These solutions include nearly 4,000 vetted third party managed account products, multi-manager portfolios, fund strategist portfolios, as well as over 1,200 proprietary products, such as quantitative portfolios and fund strategist portfolios. PMC also offers an overlay service, which includes patented portfolio overlay and tax optimization services.

As the tables below indicate, Envestnet’s wealth management solutions have experienced steady and significant growth over the last several years. We believe this growth is attributable to secular trends in the wealth management industry, the uniqueness and comprehensiveness of our products, as well as acquisitions.

The following charts show growth in the number of advisors, accounts and assets supported by Envestnet, distinguishing those metrics between assets under management or administration (“AUM/A”) and subscription. Beginning March 31, 2018 and for periods thereafter, subscription metrics include assets, accounts and advisors associated with Envestnet | Tamarac performance reporting, where applicable. Previously, Envestnet | Tamarac’s metrics were limited to those associated with its rebalancer solution. Prior period metrics have been conformed to the new definition in the tables shown below:

AUM/A & Subscription Advisors

Table of Contents

AUM/A & Subscription Accounts

(in thousands)

AUM/A & Subscription

(\$ in billions)

8

---

## Table of Contents

### Envestnet | Yodlee Segment

Envestnet | Yodlee is a leading data aggregation and data intelligence platform. As an artificial intelligence (“AI”) and data specialist, Envestnet | Yodlee gathers, refines and aggregates a massive set of end-user permissioned transaction level data, combines them with financial applications, reports, market research analysis, and application programming interfaces (“APIs”) for its customers.

More than 1,100 financial institutions, financial technology innovators and financial advisory firms, including 15 of the 20 largest U.S. banks, subscribe to the Envestnet | Yodlee platform to underpin personalized financial apps and services for over 23 million paid subscribers.

Envestnet | Yodlee serves two main customer groups: financial institutions (“FI”) and financial technology innovators, which we refer to as Yodlee Interactive (“YI”) customers.

The Financial Institutions group provides customers with secure access to open APIs, end-user facing applications powered by our platform and APIs (“FinApps”), and reports. Customers receive end user-permissioned transaction data elements that we aggregate and cleanse. Envestnet | Yodlee also enables customers to develop their own applications through its open APIs, which deliver secure data, money movement solutions, and other functionality. FinApps can be subscribed to individually or in combinations that include personal financial management, wealth management, card, payments and small-medium business solutions. They are targeted at the retail financial, wealth management, small business, card, lenders, and other financial services sectors. These FinApps help consumers and small businesses simplify and manage their finances, review their financial accounts, track their spending, calculate their net worth, and perform a variety of other activities. For example, Yodlee’s Expense FinApp helps consumers track their spending, and a Payroll FinApp from a third party helps small businesses process their payroll. The suite of reports is designed to supplement traditional credit reports by utilizing consumer permissioned aggregated data from over 20,000 sources, including banking, investment, loan, and credit card information.

The Yodlee Interactive group enables customers to develop new applications and enhance existing solutions. These customers operate in a number of sub-vertical markets, including wealth management, personal financial management, small business accounting, small business lending and authentication. They use the Envestnet | Yodlee platform to build solutions that leverage our open APIs and access to a large end user base. In addition to aggregated transaction-level account data elements, we provide YI customers with secure access to account verification, money movement and risk assessment tools via our APIs. We play a critical role in transferring innovation from financial technology innovators to financial institutions. For example, YI customers use Yodlee applications to provide working capital to small businesses online; personalized financial management, planning and advisory services; e-commerce payment solutions; and online accounting systems for small businesses. We provide access to our solutions across multiple channels, including web, tablet and mobile.

Both FI and YI channels benefit customers by improving end-user satisfaction and retention, accelerating speed to market, creating technology savings and enhancing their data analytics solutions and market research capabilities. End users receive better access to their financial information and more control over their finances, leading to more informed and personalized decision making. For customers who are members of the developer community, Yodlee solutions provide access to critical data and payments solutions, faster speed to market and enhanced distribution. We believe that our brand leadership, innovative technology and intellectual property, large customer base, and unique data gathering and enrichment provide us with competitive advantages that have enabled us to generate strong growth.

Envestnet Analytics provides data analytics, mobile sales solutions, and online education tools to financial advisors, asset managers and enterprises. These tools empower financial services firms to extract key business insights to run their business better and provide timely and focused support to advisors. Our dashboards deliver segmentation analytics, multi-dimensional benchmarking, and practice pattern analyses that provide mission-critical insights to clients.

### Market Opportunity

The wealth management industry has experienced significant growth in terms of assets invested by retail investors in the past several years. According to the Federal Reserve, U.S. household financial assets totaled approximately \$90

trillion as

9

---

## Table of Contents

of September 30, 2018, representing a sizeable wealth management opportunity. According to Capgemini's 2018 World Wealth report, global high-net-worth financial wealth is on course to exceed \$100 trillion by 2025, up \$30 trillion from 2017.

In the next 5-10 years, fewer firms will manage far more assets at a significantly lower cost. Industry margins will be squeezed making scale and operational efficiency far more important. Firms will need to integrate technology in all areas of the business and develop a clear strategy for the future. As low-cost products gain share and larger firms benefit from scale economies, there will likely be further consolidation and new forms of collaboration.

A number of significant trends are impacting the wealth management industry. Market forces are converging to bring about changes in wealth management, including those described below:

- More consumers are recognizing the need for advice and are willing to pay for it. Consumers are also becoming more cost conscious and tech savvy. They want advice to be objective and non-conflicted.

- Investment advice will be rooted in financial planning and centered on achieving investor goals.

- There are significant gaps between the services investors actually receive and the wealth management services they would like to receive. The key change that wealth managers must deliver today is personalization.

Federal and state regulations and investor demand are changing, and a fiduciary standard is expected to become more broadly applicable in the investor-advisor relationship. According to Cerulli Associates Managed Accounts

Qualitative Update 2018, fiduciary assets represented approximately 45% of industry assets as of 2017.

- Based on data from Cerulli Associates, fee-based financial advisory services topped \$10 trillion in 2017 and advisors had discretion over 57% of managed account assets in 2017 which is expected to climb to 59% by 2021.

Advisors are personally managing \$2.8 trillion in assets but as Envestnet's September 2018 Envestat showed, those advisors who attempt to "do it all" are experiencing mixed results, at best. Only a small percentage of advisors succeed

at outperforming the market, and those advisors who do so have relatively fewer accounts and assets in their care. This opens the door to potentially more outsourcing of investment management by advisors to professional money managers and strategists.

According to various media sources, a massive wealth transfer estimated at \$30 trillion is expected to take place over the next 30 to 40 years as baby boomers transition assets to their offspring (Gen X and Gen Y), who tend to favor greater use of technology in their engagement with advisors and prefer access to advice and their assets anywhere, anytime, and on any device.

Technology is transforming the financial advice industry. Control is shifting from manufacturers and distributors of products to consumers. As consumers become better informed in an increasingly complex market, they not only seek guided advice, but they seek unbiased advisors who put their best interest first. They demand greater transparency in product pricing.

- Digital technology is revolutionizing the way financial advisors can do business as they increasingly employ technology to service clients.

- Financial services firms will need to be able to interact with customers on a digital basis via investor portals and other technology.

Regulations and digital advice start-ups are putting pressure on advisor and firm fees and profit margins. To survive and thrive, advisors will need to increasingly rely on technology to achieve efficiency and scale to serve a growing client base.

We are entering a new era of the unified advisory platform ("UAP"), a single, all-encompassing platform, which creates one advisory superstructure. The UAP will drive profound changes throughout the financial services industry and will remove structural silos. The most important feature of a UAP is the aggregation of all programs on a unified technology architecture. The UAP gives advisors a comprehensive view of a client's entire household portfolio. It simplifies portfolio management by allowing the advisor to organize all the client's advisory accounts from a single desktop portal. Nearly half of managed account sponsors are moving towards a single account architecture, but three-quarters of firms say this could take more than a year or two to achieve.

These trends are impacting Envestnet's business and creating a significant market opportunity for technology enabled investment solutions and services like ours.

A technological shift is also underway in the broader financial services industry. Outdated enterprise hardware and software are being replaced by cloud-driven solutions that are easier and less expensive to implement, update and manage. Banks continue to spend heavily on IT in order to compete effectively in an increasingly competitive environment. The addressable market opportunity is large.

As financial institutions continue to spend on technology, we believe a growing proportion of that spending will shift to cloud-based solutions.

## Table of Contents

In addition to the opportunity that exists with traditional financial institutions, we believe that we also have a significant opportunity with Internet services companies providing innovative financial solutions.

Open platforms and application-level developer ecosystems are driving innovation forward. New technology platforms are leveraging big data.

As mentioned in PwC's Asset and Wealth Management report, investors want solutions for specific needs, not products that fit style boxes. Technology is enabling outcome-based planning. It can quickly identify important life goals and solutions to match. Technology and data analytics are expected to be used to construct multi-asset outcome-based solutions using low-cost building blocks such as ETFs or index trackers. For just a small fee, computer algorithms will be able to create customized solutions.

It is widely believed that technology is set to disrupt all areas of wealth management. Studies have shown that: 58% of an advisor's occupation can be digitized using AI;

73% of 18 to 34 year olds would try a tech firm's credit card, deposit account, investment or mortgage; and 69% of advisory firms' websites are optimized for mobile use.

A report from Roubini Thought Lab indicated that by 2022, the "SMAC" stack (social, mobile, analytics, and cloud) will become a necessity for investment providers, and over half of those surveyed plan to use a cloud platform to replace their legacy systems. Digitally advanced firms now spend approximately 17% of their revenue on technology and plan to increase that investment to 24% by 2022.

Given that clients expect to be able to access their account information from any device at any time, advisors (and financial services firms in general) must be prepared to interact with clients through a wider range of communication channels. New technologies are being adopted by wealth management firms to better communicate with clients and give them the same type of experience they receive in other aspects of their lives, such as using devices like Amazon's Alexa and video performance reports.

As we continue to expand our presence in the markets outlined above, the number of potential end users who use our solutions increases dramatically. Our potential end user base includes any consumer of financial services on the Internet—and this end user could be a paid user of Envestnet | Yodlee many times over across multiple customers and products.

### Business Model

Envestnet's business model lends itself to a high degree of recurring and predictable revenues. Envestnet provides asset-based, subscription-based and professional services on a business-to-business-to-consumer ("B2B2C") basis to financial services clients, whereby customers offer solutions based on our platform to their end users. On a business-to-business ("B2B") basis, we deliver an open platform to customers and third-party developers through an open API framework. We believe that a number of characteristics contribute to the success of our business model, including:

Favorable trends with respect to growth in fee-based assets and need for advanced technology;

Recurring and resilient revenue base; and

Strong customer retention.

Revenue is generated in the following three categories:

Asset-based recurring revenues

Asset-based recurring revenues primarily consist of fees for providing customers continuous access to platform services through the Company's uniquely customized platforms. These platform services include investment manager research, portfolio diagnostics, proposal generation, investment model management, rebalancing and trading, portfolio performance reporting and monitoring solutions, billing and back office and middle-office operations and administration and are made available to customers throughout the contractual term from the date the customized platform is launched.

The asset-based fees the Company earns are generally based upon variable percentages of assets managed or administered on our platforms. The fee percentage varies based on the level and type of services the Company provides to its customers, as well as the values of existing customer accounts. The values of the customer accounts are affected by inflows or outflows of customer funds and market fluctuations.

In approximately 90% of asset based fee arrangements, customers are billed at the beginning of each quarter based on the market value of customer assets on our wealth management platforms as of the end of the prior quarter, providing for a high degree of revenue visibility in the current quarter. Revenue may fluctuate from quarter to quarter based on changes in asset values, fee rates on those asset values and asset flows.



## Table of Contents

### Subscription-based recurring revenues

Subscription-based recurring revenues primarily consist of fees for providing customers continuous access to the Company's platform for wealth management and financial wellness. The subscription-based fees generally include fixed fees and or usage-based fees.

Investnet's subscription fees are also highly predictable because they are generally established in multi-year contracts providing longer-term visibility regarding that portion of total revenues.

Subscription fees vary based on the scope of technology solutions and services being used, and are priced in a variety of constructs based on the size of the business, number of users or number of accounts, and in many cases can increase over time based on the growth of these factors.

### Professional Services and Other

Investnet also generates revenue from professional services for client onboarding, technology development and other project related work.

### Growth Strategy

Investnet intends to increase revenue and profitability by continuing to pursue the following strategies:

• Add new enterprise clients;

- Increase our advisor base;

• Extend the account base within a given advisor relationship;

• Expand the services utilized by each advisor or enterprise client, including the cross selling of services across Investnet's business lines where applicable;

• Continue to invest in our technology platforms and data analytics capabilities; and

• Continue to pursue strategic transactions and other relationships.

### Technology Platforms

Our technology platforms feature a three-tier architecture integrating a Web-based user interface, an application tier that houses the business logic for all of the platforms' functionality and a SQL Server databases. The application tier resides behind load balancers which distribute the workload demands across our servers. We believe our technology design allows for significant scalability.

Investnet undergoes an annual SSAE 16 SOC 1 Type II audit to validate the continued operation of our internal controls on three of its main technology platforms; the Unified Managed Platform, the Unified Managed Platform (Institutional) and Tamarac platforms. The SOC reports confirm design and operating effectiveness of internal controls. We maintain multiple redundancies, back up our databases and safeguard technologies and proprietary information consistent with industry best practices. We also maintain a comprehensive business continuity plan and company-wide risk assessment program that is consistent with industry best practices and that complies with applicable regulatory requirements.

We have historically made significant investments in platform development in order to enhance and expand our technology platforms and expect to continue to make significant investments in the future. In the years ended December 31, 2018, 2017 and 2016, we incurred technology development costs totaling approximately \$52,840, \$40,800 and \$38,100, respectively. Of these costs, we capitalized approximately \$24,000, \$12,600 and \$8,600, respectively, as internally developed software. We expect to continue focusing our technology development efforts principally on adding features to increase our market competitiveness, enhancements to improve operating efficiency, address regulatory demands and reduce risk and client-driven requests for new capabilities.

Our proprietary Web-based platforms provide financial advisors with access to investment solutions and services that address, in one unified, centrally-hosted platform, based on our knowledge of the industry, the widest range of front-, middle- and back-office needs in our industry. The "open architecture" design of our technology platforms provide financial advisors with flexibility in terms of the investment solutions and services they access, and configurability in the manner in which the financial advisors utilize particular investment solutions and services. The multi-tenant platform architecture ensures that this level of flexibility and customization is achieved without requiring us to create unique applications for each client, thereby reducing the need for additional technology personnel and associated

expenses. In addition, though our technology platforms

12

---

## Table of Contents

are designed to deliver a breadth of functions, financial advisors are able to select from the various investment solutions and services we offer, without being required to subscribe to or purchase more than what they believe is necessary.

Our data aggregation platform collects a wide variety of end user-permissioned transaction-level data from over 20,000 sources and puts it in a common repository. Envestnet | Yodlee developed robust proprietary technology and processes and established relationships that allow us to curate these data sources and expand our access to new data sources. Over 60% of this data is collected through structured feeds from our FI customers and other FIs. These structured feeds, which consist of either batch files pushed to us or real-time access, provide this critical data efficiently and at scale. Where we do not have direct connections, we capture data using our proprietary information-gathering techniques.

Beyond collecting data, our data aggregation platform performs a data refining process and augments the data with additional information from a variety of other sources. We enrich the data with a proprietary twelve-step process, adding such elements as categorization and merchant identification for bank or credit card account data and security identification, classification and normalization for investment data. As our platform usage grows and is exposed to more users and use cases, the system benefits from machine learning algorithms to better normalize, categorize and process large amounts of data, allowing our network to become more effective, efficient and valuable to our customers. Utilizing this enhanced data, including consolidated data from within our FI customers and account data regarding accounts at other FIs, our data intelligence organizes, analyzes and presents it in a manner that helps our customers offer personalized solutions that enable their consumers to achieve better financial outcomes.

Our analytics platform provides a highly scalable cloud based environment that supports a cost effective and secure way of handling very large data sets, permitting us to develop and test new machine learning algorithms and transform these data sets using the resulting models. The results of the computations can be accessed interactively, as files, or via API access through our data aggregation platform.

Our money movement solutions facilitate payment flows. Our customers can debit and credit consumer and small business accounts in real time or in batches and route payments between accounts (funds transfer), to billers (bill pay), or to other individuals (peer to peer). Designed to be run as a service, our money movement solutions allow us to operate these functionalities in the cloud and quickly adapt to new payment systems. Our payment engine, which is a principal component of our money movement solutions, is a task-based payment processing platform that controls all payment activity across cobrands, originators, processors and billers.

### Customers

Financial advisors that are working alone or as part of financial advisory firms. Our principal value proposition aimed at financial advisors working alone or as part of financial advisory firms is that our technology platforms allow them to compete effectively with financial advisors employed by large financial institutions. Envestnet can provide these advisors with access to as many or more of the investment solutions and services that are typically available to financial advisors working at the largest firms.

Enterprise clients in wealth management. We provide enterprise clients with customized, private labeled technology platforms that enable them to support their affiliated financial advisors with a broad range of investment solutions and services. Our contracts with enterprise clients establish the applicable terms and conditions, including pricing terms, service level agreements and basic platform configurations.

Financial institutions. We serve global banks through financial applications. Envestnet | Yodlee Retail Banking solution is a set of innovative FinApps providing consumers with a clear picture and greater insight into their financial lives. It enables customers to consolidate all their financial account information in one place, giving them a better handle on their money. Personalized tools allow them to manage, and meet their financial goals – which in turn makes them more engaged and more loyal customers.

- Other financial technology providers. We work with a variety of firms who provide technology to the financial services industry. We provide FinApps, personal financial management tools and data aggregation capabilities

to companies in online lending, e-commerce and payments, digital advice and wealth management and other web development firms.

## Table of Contents

### Sales and Marketing

Our sales teams are organized based on our customers.

Our advisor-facing sales teams are field sales professionals supported by internal consultants, organized regionally, responsible for supporting firms and investment advisors who are customers of Envestnet. They help advisors create investment proposals, navigate Envestnet's wealth management platform and facilitate new business. Our Platform Consulting Group helps advisors utilize Envestnet's wealth management platform effectively and efficiently. They are subject matter experts on advisor managed programs, unified managed accounts ("UMA"), proposal guidance and site navigation. They provide consulting services to a number of large clients. Envestnet's PMC Consulting team of investment professionals provide a variety of portfolio and investment management consulting services to RIAs and broker-dealer advisors using Envestnet's wealth management platform.

Enterprise Consultants are the main point of contact for enterprise clients with respect to day-to-day platform matters as well as contractual and pricing efforts. This includes support for advisors and firm management with regard to the overall relationship. The enterprise consultant is essentially the client's relationship manager who serves as the liaison between the firm and Envestnet.

We have a direct sales and pre-sales team servicing the leading global financial institutions. The FI sales team is divided geographically. Each regional sales and pre-sales team is responsible for acquiring new FI customers. Within the North America region, direct sales and pre-sales representatives are further divided into teams that focus on specific accounts, on a named-account basis, depending on size, location, product specialization and/or brand. These sales teams are supported by customer advocacy teams who specialize in customer account management and expansion. Together, sales, pre-sales and customer advocacy representatives are responsible for growing our customer relationships in terms of account penetration (cross-selling additional products and services into the same or additional groups within a FI) and expanding use of existing products and services (increasing usage).

We have a direct sales and technical pre-sales team covering financial technology providers in each region. Each regional sales and technical pre-sales team is responsible for acquiring new customers and channel partners. From time to time, we assign specific accounts based upon sales or domain expertise. These teams are supported by a customer success and developer relations team who specialize in customer API integration, and account management and expansion, including services to our channel partners. Together, sales, technical pre-sales, customer success and developer relations representatives are responsible for growing our direct customer and channel partner relationships in terms of account penetration and API usage.

Our marketing efforts are focused on initiatives to drive global company, brand and solutions awareness and significant lead generation and sales acceleration across our whole business. These initiatives include educating the market about our solutions, achieving recognition as the industry leader through awards, speaking engagements, thought leadership articles, data trends and metrics and high profile interviews. We use advertising and public relations to communicate our message to our target markets.

To implement our marketing efforts, we generally employ paid print and online advertisements in a variety of industry publications, as well as promotions that include e-blast campaigns and sponsored webinars for financial advisors. We also partner with independent broker-dealers on direct mail campaigns targeting such firms' financial advisors to describe the investment solutions and services that we offer, produce brochures and presentations for financial advisors to use with their clients and we create Internet pages or sites to promote our investment solutions and services. Envestnet | Yodlee employs a variety of integrated sales and marketing initiatives, including hosted demand generation webinars, sponsorship and partnership of key industry conferences, customer and developer-focused events and programs, incubator efforts and other high-profile activities designed to demonstrate thought leadership and engage new audiences in actionable and measurable ways. We employ many tools, including web and social properties, integrated creative campaigns consisting of online advertising, digital content marketing, direct mail and blogs. Envestnet | Yodlee also supports industry analyst relations and media relations activities. In addition, our marketing efforts develop FI customer best practices tools to drive deeper consumer activity and engagement.



## Table of Contents

### Competition

Within wealth management, we compete on the basis of several factors, including:

• The breadth and quality of investment solutions and services to which we provide access through our technology platform;

• The number of custodians that are connected through our technology platforms;

• The price of our investment solutions and services;

• The ease of use of our technology platforms; and

• The nature and scope of investment solutions and services that each wealth management provider believes are necessary to address their needs.

Our competitors offer a variety of products and services that compete with one or more of the investment solutions and services provided through our technology platforms; although, based on our industry experience, we believe that none offers a more comprehensive set of products and services than we do.

Within digital financial services, we compete on the basis of several factors, including:

• Reputation;

• Cloud-based delivery model;

• Data aggregation capability;

• Access to data through direct structured data feeds to FI's;

• Scale (size of customer base and level of user adoption);

• Security;

• Time to market;

• Breadth and depth of application functionality user experience;

• Access to third-party applications;

• Ease of use, ease of integration, flexibility and configurability; and

• Competitive pricing.

We believe that we compete favorably with respect to all of these factors.

### Regulation

#### Overview

The financial services industry is among the most extensively regulated industries in the United States. We operate investment advisory, broker-dealer and mutual fund advisory businesses, each of which is subject to a specific regulatory scheme, including regulation at the federal and state level, as well as regulation by self-regulatory organizations and non-U.S. regulatory authorities. In addition, we are subject to numerous laws and regulations of general application.

Our subsidiaries Envestnet Asset Management, Inc. ("EAM"), Envestnet Portfolio Solutions, Inc. ("EPS") and, FDX Advisors, Inc. and ERS operate investment advisory businesses. These subsidiaries are registered with the U.S. Securities and Exchange Commission ("SEC") as "investment advisers" under the Investment Advisers Act of 1940, as amended (the "Advisers Act"), and are regulated thereunder. They may also provide fiduciary services as defined in Section 3(21)(A)(ii) of the Employee Retirement Income Security Act of 1974 ("ERISA"), including acting as an "investment manager" (as defined in Section 3(38) of ERISA). As described further below, many of our investment advisory programs are conducted pursuant to the non-exclusive safe harbor from the definition of an "investment company" provided for under Rule 3a-4 of the Investment Company Act of 1940, as amended (the "Investment Company Act"). If Rule 3a-4 were to cease to be available, or if the SEC were to modify the rule or its interpretation of how the rule is applied, it could have a substantial effect on our business. EAM serves as the investment adviser to two mutual funds. Mutual funds are registered as "investment companies" under the Investment Company Act. The Advisers Act, Investment Company Act and ERISA, together with related regulations and interpretations of the SEC, impose numerous obligations and restrictions on investment advisers and mutual funds, including recordkeeping requirements, limitations on advertising, disclosure and reporting obligations, prohibitions on fraudulent activities and detailed operating requirements, including restrictions on transactions between an adviser and its clients, and between a mutual fund and its advisers and affiliates. The fiduciary obligations of investment advisers to their clients require advisers to, among other things, consider the suitability of the investment products and advice they provide, seek "best

execution” for their clients’ securities transactions, conduct due diligence on third-party products offered to clients, consider the appropriateness of the adviser’s fees and provide extensive and ongoing disclosure to clients. The application of these

15

---



## Table of Contents

requirements to wrap fee programs is particularly complex and the SEC has in the past scrutinized firms' compliance with these requirements. The SEC is authorized to institute proceedings and impose fines and sanctions for violations of the Advisers Act and the Investment Company Act and has the power to restrict or prohibit an investment adviser from carrying on its business in the event that it fails to comply with applicable laws and regulations. Although we believe we are in compliance in all material respects with the requirements of the Advisers Act and the Investment Company Act and the rules and interpretations promulgated thereunder, our failure to comply with such laws, rules and interpretations could have a material adverse effect on us.

Portfolio Brokerage Services, Inc., ("PBS"), our broker-dealer subsidiary, is registered as a broker-dealer with the SEC under the Exchange Act, in all 50 states and the District of Columbia. In addition, PBS is a member of the Financial Industry Regulatory Authority ("FINRA"), the securities industry self-regulatory organization that supervises and regulates the conduct and activities of broker-dealers. Broker-dealers are subject to regulations that cover all aspects of their business, including sales practices, market making and trading among broker-dealers, use and safekeeping of customers' funds and securities, capital structure, record-keeping and the conduct of directors, officers, employees, representatives and associated persons. FINRA and the SEC conduct periodic examinations of the operations of its members, including PBS. Violation of applicable regulations can result in the suspension or revocation of a broker-dealer's registration, the imposition of censures or fines and the suspension or expulsion of the broker-dealer from FINRA. PBS is subject to minimum net capital requirements under the Exchange Act, SEC and FINRA rules and conducts its business pursuant to the exemption from the SEC's customer protection rule provided by Rule 15c3-3(k)(2)(i) under the Exchange Act. As of December 31, 2018, PBS was required to maintain a minimum of \$100 in net capital and its actual net capital was \$1,259.

Investnet | Yodlee is examined on a periodic basis by various regulatory agencies. For example, Investnet | Yodlee is a supervised third-party technology service provider subject to multi-agency supervisory examinations in a wide variety of areas based on published guidance by the Federal Financial Institutions Examination Council. These examinations include examinations of Investnet | Yodlee's management, acquisition and development activities, support and delivery, IT and disaster preparedness and business recovery planning. The Office of the Comptroller of the Currency (the "OCC") is the agency in charge of these examinations.

Either as a result of direct regulation or obligations under customer agreements, our subsidiaries are required to comply with certain provisions of the Gramm-Leach-Bliley Act, related to the privacy of consumer information and may be subject to other privacy and data security laws because of the solutions we provide. In addition, numerous regulations have been proposed and are still being written to implement the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), for enhanced due diligence of the internal systems and processes of companies like ours by their financial institutions customers.

Our subsidiaries are subject to various federal and state laws and regulations that grant supervisory agencies, including the SEC and OCC, broad administrative powers. In the event of a failure to comply with these laws and regulations, the possible sanctions that may be imposed include the suspension of individual employees, limitations on the permissibility of our regulated subsidiaries and our other subsidiaries to engage in business for specified periods of time, censures, fines and the revocation of registration as a broker-dealer or investment adviser, as applicable.

Additionally, the securities laws and other regulations applicable to us and our subsidiaries provide for certain private rights of action that could give rise to civil litigation. Any litigation could have significant financial and non-financial consequences including monetary judgments and the requirement to take action or limit activities that could ultimately affect our business.

Many of the laws and regulations to which our subsidiaries are subject are evolving, unclear and inconsistent across various jurisdictions, and ensuring compliance with them is difficult and costly. We continually develop improvements to our existing products and services as well as new products and services. Many of these improvements or new products and services may implicate regulations to which we may not already be subject or with which we may not have experience. New laws or regulations, or changes in existing laws or regulations or interpretations of existing laws and regulations, including those relating to the activities of our investment adviser, broker-dealer and financial institution clients, may occur that could increase our compliance and other costs of doing business, require significant changes to our systems or solutions or substantially change the way that our clients

operate their businesses. Compliance with any new or revised regulatory requirements may divert internal resources, be expensive and time-consuming and may require increased investment in compliance functions or new technologies. Failure to comply with the laws and regulations to which we and our subsidiaries are subject could result in fines, penalties or limitations on our ability to conduct our business, or federal or state actions, any of which could significantly harm our reputation, and could materially and adversely affect our business, operating results and financial condition.

## Table of Contents

### Investment Advisory Program Conducted Under Rule 3a-4

Under the Investment Company Act, an issuer that is engaged in the business of investing, reinvesting or trading in securities may be deemed an “investment company,” in which case the issuer may be subject to registration requirements and regulation as an investment company under the Investment Company Act. In order to provide assurance that certain discretionary investment advisory programs would not be considered investment companies, the SEC adopted Rule 3a-4 under the Investment Company Act, which provides a non-exclusive safe harbor from the definition of an investment company for programs that meet the requirements of the rule. We conduct the following programs pursuant to the Rule 3a-4 safe harbor:

- Separately managed accounts;
- Unified managed account portfolios;
- Mutual fund portfolios and exchange-traded fund portfolios; and
- Advisor as portfolio manager.

We believe that, to the extent we exercise discretion over accounts in any of these programs, these programs qualify for the safe-harbor because all of the programs have the following characteristics, which are generally required in order for a program to be eligible for the Rule 3a-4 safe harbor:

- Each client account is managed on the basis of the client’s financial situation, investment objectives and reasonable client-imposed investment restrictions;
- At the opening of the account, the client’s financial advisor obtains information from the client and provides us with the client’s financial situation, investment objectives and reasonable restrictions;
- On no less than an annual basis, the client’s financial advisor contacts the client to determine whether there have been any changes in the client’s financial situation or investment objectives, and whether the client wishes to impose any reasonable restrictions on the management of the account or reasonably modify existing restrictions. This information is communicated to us and reflected in our management of client accounts;
- On a quarterly basis, we or another designated person (in most cases this will be the client’s financial advisor) notify the client to contact us or another designated person if there have been any changes to the client’s financial position or investment objectives or if the client wishes to impose any reasonable restrictions on the management of the account;
- We, the client’s financial advisor and the manager of the client’s account, all of whom are knowledgeable about the account and its management, are reasonably available to the client for consultation;
- All of the programs allow each client to impose reasonable restrictions on the management of his or her account;
- On at least a quarterly basis, the client is provided with a statement containing a description of all activity in the client’s account during the preceding period, including all transactions made on behalf of the account, all contributions and withdrawals made by the client, all fees and expenses charged to the account and the value of the account at the beginning and end of the period; and
- For all of the programs, each client retains, with respect to all securities and funds in the client’s account, the right to withdraw securities or cash, vote securities, or delegate the authority to vote securities to another person, receive written confirmation or other notification of each securities transaction by the client’s independent custodian and proceed directly as a security holder against the issuer of any security in the client’s account without the obligation to include us or any other client of the program in any such action as a condition precedent to initiating such proceeding.

### Employees

As of December 31, 2018, we had 3,920 employees, including employees in operations, research and development, engineering and systems, executive and corporate functions, sales and marketing and investment management and research. Of these 3,920 employees, 1,429 were located in the United States, 2,475 were located in India and 16 were located in other international locations. None of our employees are represented by a labor union. We have never experienced a work stoppage and believe our relationship with our employees is positive.

Table of Contents

## Executive Officers of the Registrant

The following table summarizes information about each one of our executive officers.

Name	Age	Position(s)
Judson Bergman	62	Chairman, Chief Executive Officer, Director
Anil Arora <sup>(1)</sup>	58	Vice Chairman, Chief Executive of Envestnet   Yodlee
William Crager	54	President
Peter D'Arrigo	51	Chief Financial Officer
Scott Grinis	57	Chief Technology Officer
Shelly O'Brien	53	Chief Legal Officer, General Counsel and Corporate Secretary
Brandon Thomas	55	Chief Investment Officer
Josh Mayer	45	Chief Operating Officer

(1) We previously announced that, on February 28, 2019, Mr. Arora stepped down as Vice Chairman and Chief Executive of Envestnet | Yodlee.

**Judson Bergman**—Mr. Bergman is the founder of our company and has served as our Chairman, Chief Executive Officer and a director since 1999. Prior to founding our company, Mr. Bergman was Managing Director at Nuveen Investments, Inc. (“Nuveen”), a diversified investment manager. Mr. Bergman received an MBA in finance and accounting from Columbia University and a BA from Wheaton College.

**Anil Arora**—Mr. Arora has served as Vice Chairman and Chief Executive Officer of Envestnet | Yodlee since November 2015. Prior to then, he was President and Chief Executive Officer and was a member of the board of directors of Yodlee, Inc. since February 2000. Mr. Arora served as the Chairman of the board of directors of Yodlee, Inc. since March 2014. Prior to joining Yodlee, Mr. Arora served in various positions with Gateway, Inc. Mr. Arora holds an MBA from the University of Michigan, Stephen M. Ross School of Business, and a BS in business administration from Rockford College.

**William Crager**—Mr. Crager has served as our President since 2002. Prior to joining us, Mr. Crager served as Managing Director of Marketing and Client Services at Rittenhouse Financial Services, Inc., an investment management firm affiliated with Nuveen. Mr. Crager received an MA from Boston University and a BA from Fairfield University, with a dual major in economics and English.

**Peter D'Arrigo**—Mr. D'Arrigo has served as our Chief Financial Officer since 2008. Prior to joining us, Mr. D'Arrigo worked at Nuveen where he served as Treasurer since 1999, as well as holding a variety of other titles after joining them in 1990. Mr. D'Arrigo received an MBA from the Northwestern University Kellogg Graduate School of Management and an undergraduate degree in applied mathematics from Yale University.

**Scott Grinis**—Mr. Grinis has served as our Chief Technology Officer since 2004. Prior to joining us, Mr. Grinis co-founded Oberon Financial Technology, Inc., our subsidiary, prior to its acquisition by us. Mr. Grinis received a BS and an MS degree in electrical engineering from Stanford University.

**Shelly O'Brien**—Ms. O'Brien has served as our Chief Legal Officer, General Counsel and Corporate Secretary since 2002. Prior to joining us, Ms. O'Brien was General Counsel and Director of Legal and Compliance for ING (U.S.) Securities, Futures & Options Inc., a broker-dealer, and futures commission merchant. Ms. O'Brien received a degree in political science from Northwestern University, a JD from Hamline University School of Law, and an LLM in taxation from John Marshall Law School.

**Brandon Thomas**—Mr. Thomas is a co-founder of our company and has served as Chief Investment Officer and Managing Director of Portfolio Management Consultants, our internal investment management and portfolio consulting group, since 1999. Prior to joining us, Mr. Thomas was Director of Equity Funds for Nuveen. Mr. Thomas received an MBA from the University of Chicago, a JD from DePaul University and is a graduate of Brown University.

**Josh Mayer**—Mr. Mayer was appointed Chief Operating Officer in April 2014. Previously, he served as Envestnet's Executive Vice President and Director of Operations from January 2011 to April 2014, and as Envestnet's Senior Vice President, Head of Operations from 2004 to January 2011. From 2000 to 2004, Mr. Mayer served as the Director of Operations



## Table of Contents

for Oberon Financial Technology, which was acquired by Envestnet in 2004. Mr. Mayer holds a Bachelor of Arts and Sciences from Georgetown University.

### Securities Exchange Act Reports

The Company maintains a website at the following address: <http://www.envestnet.com>.

We make available on or through our website certain reports and amendments to those reports that we file with or furnish to the SEC in accordance with the Securities Exchange Act of 1934, as amended. These include our Annual Reports on Form 10-K, our Quarterly Reports on Form 10-Q and our Current Reports of Form 8-K. We make this information available on our website free of charge as soon as reasonably practicable after we electronically file the information available with, or furnish it to, the SEC. The information on the Company's website is not incorporated by reference in this Annual Report on Form 10-K. The SEC also maintains a website at the following address, through which this information is available:

<http://www.sec.gov>.

### Item 1A. Risk Factors

An investment in any security involves risk. An investor or potential investor should consider the risks summarized in this section when making investment decisions regarding our securities offerings. These risks and uncertainties include, but are not limited to, the risk factors set forth below. The risks and uncertainties described in this section are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently believe are immaterial may also affect our business. If any of these known or unknown risks or uncertainties actually occurs, our business, financial condition and results of operations could be materially adversely affected.

#### Risks Related to Our Business

We have experienced rapid revenue growth, which may be difficult to sustain and which may place significant demands on our administrative, operational and financial resources and any inability to maintain or manage our growth could have a material adverse effect on our results of operations, financial condition or business.

Our revenues during the three years ended December 31, 2018 have grown at a compound annual growth rate of 19%.

We expect our growth to continue, which could place additional demands on our resources and increase our expenses.

Our future growth will depend on, among other things, our ability to successfully grow our total assets under management and administration by adding new investment solutions and services and add additional clients. If we are unable to implement our growth strategy, adding new investment solutions and services and gain new clients, our results of operations, financial condition or business may be materially adversely affected.

Sustaining growth will also require us to commit additional management, operational and financial resources and to maintain appropriate operational and financial systems. In addition, continued growth increases the challenges involved in:

- recruiting, training and retaining sufficiently skilled technical, marketing, sales and management personnel;
- preserving our culture, values and entrepreneurial environment;
- successfully expanding the range of investment solutions and services offered to our clients;
- developing and improving our internal administrative infrastructure, particularly our financial, operational, compliance, record keeping, communications and other internal systems; and
- maintaining high levels of satisfaction with our investment solutions and services among clients.

There can be no assurance that we will be able to maintain or accelerate our growth, and any failure to do so could adversely affect our results of operations, financial condition or business.

Our growth strategy includes growing through acquisitions and acquisitions involve a number of risks.

We expect to grow our business by, among other things, making acquisitions. Over the past four years we have completed a number of acquisitions. Acquisitions involve a number of risks. They can be time consuming and may divert management's attention from day to day operations. Financing an acquisition could result in dilution from issuing equity securities or a weaker balance sheet from using cash or incurring debt. Acquisitions might also result in losing key employees. In addition, we may fail to successfully integrate acquisitions. We may also fail to generate enough revenues or profits from an acquisition to earn a return on the associated purchase price.



## Table of Contents

To the extent we grow our business through acquisitions, any such future acquisitions could present a number of other risks, including:

- incorrect assumptions regarding the future results of acquired operations or assets or expected cost reductions or other synergies expected to be realized as a result of acquiring operations or assets;
- failure to integrate the operations or management of any acquired operations or assets successfully and on a timely and cost effective basis;
- insufficient knowledge of the operations and markets of acquired businesses;
- loss of key personnel;
- failure to obtain necessary customer consents or retain key customers;
- diversion of management's attention from existing operations or other priorities;
- increased costs or liabilities as a result of historical, undetected or undisclosed legal, regulatory or financial issues related to acquired operations or assets; and
- inability to secure, on terms we find acceptable, sufficient financing that may be required for any such acquisition or investment.

In addition, if we are unsuccessful in completing acquisitions of other businesses, operations or assets or if such opportunities for expansion do not arise, our results of operations, financial condition or business could be materially adversely affected.

Our failure to successfully execute the conversion of our clients' assets from their technology platform to our platforms in a timely and accurate manner could have a material adverse effect on our results of operations, financial condition or business.

When we begin working with a new client, or acquire new client assets through an acquisition or other transaction, we are often required to convert all or a significant portion of assets from the clients' technology platform to our technology platforms. These conversions present significant technological and operational challenges that can be time consuming and may divert management's attention from other operational activities. If we fail to successfully complete our conversions in a timely and accurate manner, we may be required to expend more time and resources than anticipated, which could erode the profitability of the client relationship. In addition, any such failure may harm our reputation and may make it less likely that prospective clients will commit to working with us. Any of these risks could materially adversely affect our results of operations, financial condition or business.

We have a significant amount of debt and servicing our debt requires a significant amount of cash, and we may not have sufficient cash flow from our business to service our debt.

As of December 31, 2018, we had no borrowings outstanding under our revolving credit facility (the "Second Amended and Restated Credit Agreement"), \$172,500 of outstanding 1.75% convertible notes due in 2019 (the "2019 Notes") and \$345,000 of outstanding 1.75% convertible notes due in 2023 (the "2023 Notes"). As of December 31, 2018, we had an additional \$350,000 available under our Second Amended and Restated Credit Agreement. This indebtedness could, among other things:

- make it difficult for us to pay other obligations;
- make it difficult to obtain favorable terms for any necessary future financing for working capital, capital expenditures, debt service requirements or other purposes;
- require us to dedicate a substantial portion of our cash flow from operations to service the indebtedness, reducing the amount of cash flow available for other purposes; and
- limit our flexibility in planning for and reacting to changes in our business.

Our revenue can fluctuate from period to period, which could cause our share price to fluctuate.

Our revenue may fluctuate from period to period in the future due to a variety of factors, many of which are beyond our control. Factors relating to our business that may contribute to these fluctuations include the following events, as well as other factors described elsewhere in this document:

-



a decline or slowdown of the growth in the value of financial market assets, which may reduce the value of assets under management and administration and therefore our revenues and cash flows;  
• negative public perception and reputation of the financial services industry, which would reduce demand for our investment solutions and services;

Table of Contents

- unanticipated changes to economic terms in contracts with clients, including renegotiations;
- downward pressure on fees we charge our clients, which would therefore reduce our revenue;
- changes in laws or regulations that could impact our ability to offer investment solutions and services;
- failure to obtain new clients;
- cancellation or non-renewal of existing contracts with clients;
- failure to protect our proprietary technology and intellectual property rights;
- unanticipated delays in connection with the conversion of client assets onto our technology platforms;
- changes to or a reduction in the suite of investment solutions and services we provide to, or used by, existing clients;
- changes in our pricing policies or the pricing policies of our competitors to which we have to adapt;
- adverse effects from actual or perceived errors, breaches of contract, confidentiality, privacy, or fiduciary obligations;
- fluctuations in currency exchange rates; and
- general economic and political conditions, both domestically and internationally, as well as economic conditions specifically affecting industries in which our customers operate.

As a result of these and other factors, the results of operations for any quarterly or annual period may differ materially from the results of operations for any prior or future quarterly or annual period and should not be relied upon as indications of our future performance.

Because some of our sales efforts are targeted at large financial institutions and large Internet services companies, we face prolonged sales cycles, substantial upfront sales costs and less predictability in completing some of our sales. If our sales cycle lengthens, or if our upfront sales investments do not result in sufficient revenue, our operating results may be harmed.

We target a portion of our sales efforts at large financial institutions and large Internet services companies, which presents challenges that are different from those we encounter with smaller customers. Because our large customers are often making an enterprise-wide decision to deploy our solutions, we face longer sales cycles, complex customer requirements, substantial upfront sales costs, significant contract negotiations and less predictability in completing sales with these customers. Our sales cycle can often last one year or more with our largest customers, who often undertake an extended evaluation process, but is variable and difficult to predict. We anticipate that we will experience even longer sales cycles, more complex customer needs, higher upfront sales costs and less predictability in completing sales with customers located outside of the United States. If our sales cycle lengthens or our upfront sales investments do not generate sufficient revenue to justify our investments in our sales efforts, our operating results may be harmed.

Failure of our customers to deploy our solutions in a timely and successful manner could negatively affect our revenue and operating results.

The timing of revenue from our customers depends on a number of factors outside of our control and may vary from period to period. Our customers may request customization of our solutions for their systems or engage in a prolonged, internal decision making process regarding the deployment of our solutions. Among our larger customers, deployment of our solutions can be a complex and prolonged process and requires integration into the existing platform on our customers' systems. Any delay during the deployment process related to technical difficulties experienced by our customers or us in integrating our solutions into our customers' systems could further lengthen the deployment period and create additional costs or customer dissatisfaction. During the deployment period, we expend substantial time, effort, and financial resources to assist our customers with the deployment. We generally are not able to recognize the full potential value of our customer contracts until our customers actually deploy our solutions. Cancellation of any deployment after it has begun could result in lost time, effort, and expenses invested in the cancelled deployment process, and would adversely affect our ability to recognize revenue that we anticipated at the time of the execution of the related customer contract. If our customers do not timely and successfully deploy our solutions, our future revenue and operating results could be negatively impacted.

We operate in highly competitive industries, with many firms competing for business from financial advisors and financial institutions on the basis of a number of factors, including the quality and breadth of investment solutions and services, ability to innovate, reputation and the prices of services and this competition could hurt our financial

performance.

In our wealth solutions technology solutions business, we compete with many different types of companies that vary in size and scope, including custodians, turnkey asset management platforms, data and analytics providers, and other financial technology companies. Representative examples of competitors include Pershing LLC (a subsidiary of BNY Mellon Corporation), AssetMark, Inc., Advent Software (a subsidiary of SS&C Technologies Holdings, Inc.), Orion Advisor Services, and Plaid Technologies Inc. Competition is discussed in greater detail under “Business—Competition” included in this

21

---

Table of Contents

Form 10 K. In addition, some of our clients have developed or may develop the in-house capability to provide the technology and/or investment advisory services they have retained us to perform. These clients may also offer internally developed services to their financial advisors, obviating the need to hire us, and they may offer these services to third-party financial advisors or financial institutions, thereby competing directly with us for that business. Many of our competitors in this business have significantly greater resources than we do. These resources may allow our competitors to respond more quickly to changes in demand for investment solutions and services, to devote greater resources to developing and promoting their services and to make more attractive offers to potential clients and strategic partners, which could hurt our financial performance.

We may lose clients as a result of the sale or merger of a client, a change in a client's senior management, competition from other financial advisors and financial institutions and for other reasons. We also face increased competition due to the current trend of industry consolidation. If large financial institutions that are not our clients are able to attract assets from our clients, our ability to grow revenues and earnings may be adversely affected.

Our Envestnet | Yodlee group competes with other financial technology companies, global payment networks, credit bureaus and data and analytic providers. While we do not believe any single company in the data aggregation and data intelligence space offers a comprehensive platform with diverse features such as ours, representative examples of competitors include Intuit, Inc., Plaid Inc. and Fiserv, Inc.

Our Envestnet | PMC group competes with other providers of investment solutions and products. These competitors may offer broader solutions and/or products and their solutions and/or products may have better investment returns during one or more periods. If the investment returns on our investment products are not perceived to be competitive, we could experience outflows of assets from these products and face difficulty attracting new assets to these products. We compete with many companies that have greater name recognition, substantially greater financial, technical, marketing and other resources, the ability to devote greater resources to the promotion, sale and support of their solutions, more extensive customer bases and broader customer relationships, and longer operating histories than we have.

We expect competition to increase as other companies continue to evolve their offerings and as new companies enter our market. New companies entering our market may choose to offer internally-developed solutions at little or no additional cost to their end users by bundling them with their existing applications and solutions. Increased competition is likely to result in pricing pressures, which could negatively impact our gross margins.

Our failure to successfully compete in any of the above-mentioned areas could result in reduced revenues or lack of market share which could have a material adverse effect on our results of operations, financial condition or business. Competition could also affect the revenue mix of services we provide, resulting in decreased revenues in lines of business with higher profit margins.

We derive a substantial portion of our revenues from the delivery of investment solutions and services to clients in the financial advisory industry and our revenue could suffer if that industry experiences a downturn.

A substantial portion of our revenues are derived from clients in the financial advisory industry. A decline or lack of growth in demand for financial advisory services would adversely affect our clients and, in turn, our results of operations, financial condition and business. For example, the availability of free or low-cost investment information and resources, including research and information relating to publicly traded companies and mutual funds available on the Internet or on company websites, could lead to lower demand by investors for the services provided by financial advisors. In addition, demand for our investment solutions and services among financial advisors could decline for many reasons. Consolidation or limited growth in the financial advisory industry could reduce the number of our clients and potential clients. Events that adversely affect our clients' businesses, rates of growth or the numbers of customers they serve, including decreased demand for our clients' products and services, adverse conditions in our clients' markets or adverse economic conditions generally, could decrease demand for our investment solutions and services and thereby decrease our revenues. Any of the foregoing could have a material adverse effect on our results of operations, financial condition or business.

A limited number of clients account for a material portion of our revenue. Renegotiation or termination of our contracts with any of these clients could have a material adverse effect on our results of operations, financial condition or business.

For the years ended December 31, 2018, 2017 and 2016, revenues associated with our relationship with our single largest client, FMR LLC, an affiliate of FMR Corp., or Fidelity, accounted for 17%, 17% and 15% respectively, of our total

22

---

Table of Contents

revenues and our ten largest clients accounted for 31%, 37% and 36%, respectively, of our total revenues. Our license agreements with large financial institutions are generally multi-year contracts that may be terminated upon the expiration of the contract term or prior to such time for cause, which may include breach of contract, bankruptcy, insolvency and other reasons. A substantial majority of our revenues associated with Fidelity is derived from ongoing asset-based platform service fees paid by firms, advisors or advisors' clients obtained through the Fidelity relationship. A majority of our agreements with financial advisors generally provide for termination at any time. The license agreement with Fidelity, which accounted for less than 1% of our revenue in the year ended December 31, 2018, is subject to renewal on an annual basis. If Fidelity or a significant number of our most important clients were to renegotiate or terminate their contracts with us, our results of operations, financial condition or business could be materially adversely affected.

A substantial portion of our revenue is based on fees earned in the value of assets under management or administration. Changes in market and economic conditions could lower the value of assets on which we earn revenues and could decrease the demand for our investment solutions and services.

Asset based fees make up a significant portion of our revenues. Asset based fees represented 59%, 60% and 61% of our total revenues for the years ended December 31, 2018, 2017 and 2016, respectively. We expect that asset based fees will continue to represent a significant percentage of our total revenues in the future. Significant fluctuations in securities prices may materially affect the value of the assets managed by our clients and may also influence financial advisor and investor decisions regarding whether to invest in, or maintain an investment in, a particular investment or strategy. If such market fluctuation led to less investment in the securities markets, our revenues and earnings derived from asset based fees could be materially adversely affected. Our asset-based fees are generally calculated quarterly using the value of assets at the end of each calendar quarter. Our methodology may result in lower fees if the financial markets are down when fees are calculated, even if the market had performed well earlier in the quarter.

We provide our investment solutions and services to the financial services industry. The financial markets, and in turn the financial services industry, are affected by many factors, such as U.S. and foreign economic conditions and general trends in business and finance that are beyond our control. In the event that the U.S. or international financial markets suffer a severe or prolonged downturn, investors may choose to withdraw assets from financial advisors, which we refer to as "redemptions", and transfer them to investments that are perceived to be more secure, such as bank deposits and Treasury securities, and on which we might not earn fees. For example, in late 2007 and through the first quarter of 2009, the financial markets experienced a broad and prolonged downturn, our redemption rates were higher than our historical average, and our results of operations, financial condition and business were materially adversely affected. Any prolonged downturn in financial markets or increased levels of asset withdrawals could have a material adverse effect on our results of operations, financial condition or business. Historically, redemption rates have typically increased during periods where there has been a significant downturn in financial markets. Any potential decline in assets on which we earn fees would not necessarily be proportional to, and in total, could be greater than the overall market decline.

Investors' decisions regarding their investment assets are affected by many factors and investors may redeem or withdraw their investment assets generally at any time. Significant changes in investing patterns or large scale withdrawal of investment funds could have a material adverse effect on our results of operations, financial condition or business.

The clients of our financial advisors are generally free to change financial advisors, forgo the advice and other services provided by financial advisors or withdraw the funds they have invested with financial advisors. These clients of financial advisors may elect to change their investment strategies, by moving their assets away from equity securities to fixed income or other investment options, or by withdrawing all or a portion of their assets from their accounts to avoid all securities markets related risks. These actions by investors are outside of our control and could materially adversely affect the market value of the investment assets that our clients manage, which could materially adversely affect the asset based fees we receive from our clients.

Our investment advisory clients that pay us asset based fees may seek to negotiate a lower fee percentage, which could limit the growth of, or decrease, our revenues.

A significant portion of our revenues are derived from asset based fees. Asset based fees represented 59%, 60% and 61% of our total revenues for the years ended December 31, 2018, 2017 and 2016, respectively. Our investment advisory clients may, for a number of reasons, seek to negotiate a lower asset based fee percentage. For example, an increase in the use of index linked investment products by the clients of our financial advisor clients may result in lower fees being paid to our clients, and our clients may in turn seek to negotiate lower asset based fee percentages for our services. In addition, as competition among our clients increases, they may be required to lower the fees they charge to their clients, which could cause them to seek to decrease our fees accordingly. If our fee percentage declines, our revenue growth may be slower than it would

## Table of Contents

have been had we not reduced our fees, despite increasing assets on which we derive fees. Any of these factors could result in a decline in our asset based fees, which could have a material adverse effect on our results of operations, financial condition or business.

Our business will suffer if we do not keep up with rapid technological change, evolving industry standards or changing requirements of clients.

We expect technological developments to continue at a rapid pace in our industry. Our success will depend, in part, on our ability to:

- continue to develop our technology expertise;
- recruit and retain skilled technology professionals;
- enhance our current investment solutions and services;
- develop new investment solutions and services that meet changing client needs;
- implement changes to our investment solutions and services to meet changing regulatory requirements;
- advertise and market our investment solutions and services;
- protect our proprietary technology and intellectual property rights; and
- influence and respond to emerging industry standards and other technological changes.

We must accomplish these tasks in a timely and cost effective manner and our failure to do so could materially adversely affect our results of operations, financial condition or business.

We must continue to introduce new investment solutions and services and enhancements to address our clients' changing needs, market changes, regulations, and technological developments and failure to do so could have a material adverse effect on our results of operations, financial condition or business.

The market for our investment solutions and services is characterized by shifting client demands, evolving market practices, new and evolving regulations, and for some of our investment solutions and services, rapid technological change. Changing client demands, new market rules and practices, or new technologies can render existing investment solutions and services obsolete and unmarketable. As a result, our future success will continue to depend upon our ability to develop new investment solutions and services and investment solution and service enhancements that address the future needs of our target markets and respond to technological and market changes. We incurred technology development costs of approximately \$52,840, \$40,800 and \$38,100 in the years ended December 31, 2018, 2017 and 2016, respectively. We expect that our technology development costs will continue at this level or they may increase in the future. We may not be able to accurately estimate the impact of new investment solutions and services on our business or how their benefits will be perceived by our clients. Further, we may not be successful in developing, introducing, marketing and licensing our new investment solutions or services or investment solution or service enhancements on a timely and cost effective basis, or at all, and our new investment solutions and services and enhancements may not adequately meet the requirements of the marketplace or achieve market acceptance. In addition, clients may delay purchases in anticipation of new investment solutions or services or enhancements. Any of these factors could materially adversely affect our results of operations, financial condition or business.

Our hosting, collection, use and storage of customer information and data require the implementation of effective security controls, and a data security breach could disrupt our business, result in the disclosure of confidential information, expose us to liability and protracted and costly litigation, adversely affect our reputation and revenue and cause losses.

We, and our customers through which our solutions are made available to end users, collect, use, transmit and store confidential financial information such as bank account numbers, social security numbers, non-public personally identifiable information, portfolio holdings, credit card data and outstanding debts and bills. The measures we take to provide security for collection, use, storage, processing and transmission of confidential end user information may not be effective to protect against data security breaches by third parties. We use commercially available security technologies, including hardware and software data encryption techniques and multi-layer network security measures, to protect transactions and information. Although we encrypt data fields that typically include sensitive, confidential information, other unencrypted data fields may include similar information that could be accessible in the event of a security breach. We use security and business controls to limit access and use of confidential end user information.



Although we require our customers and third-party suppliers to implement controls similar to ours, the technologies and practices of our customers and third-party suppliers may not meet all of the requirements we include in our contracts and we may not have the ability to effectively monitor the implementation of security measures of our customers and third-party suppliers. In a number of cases, our customers build and host their own web applications and access our solutions through our APIs. In these cases, additional risks reside in the customer's system with respect to security and preventive controls. As a result, inadequacies of our customers' and third-party suppliers' security technologies and

## Table of Contents

practices may only be detected after a security breach has occurred. Errors in the collection, use, storage or transmission of confidential end user information may result in a breach of privacy or theft of assets.

The risk of unauthorized circumvention of our security measures has been heightened by advances in computer capabilities and the increasing sophistication of hackers. Criminals are using increasingly sophisticated techniques to engage in illegal activities involving solutions such as ours or involving end user information, such as counterfeiting, fraudulent payment and identity theft. Because the techniques used by hackers change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventive measures. In addition to hackers, it is possible that a customer could gain unauthorized access to our database through the use of our solutions. Improper access to our systems or databases by hackers or customers intending to commit criminal activities could result in the theft, publication, deletion or modification of confidential end user information. An actual or perceived breach of our security may require notification under applicable data privacy regulations.

A data security breach of the systems on which sensitive user data and account information are stored could lead to private claims or regulatory actions, including fines, against us. Many of our agreements with clients do not limit our potential liability for breaches of confidentiality, and consequential damages. If any person, including any of our employees, contractors, or consultants, penetrates our network security, misappropriates or mishandles sensitive data, inadvertently or otherwise, we could be involved in protracted and costly litigation. If unsuccessful in defending that litigation, we might be forced to pay damages and/or change our business practices or pricing structure, any of which could have a material adverse effect on our revenue and profitability. In addition, our customer contracts typically require us to meet specified minimum system security and privacy standards. If a data security breach occurs and we have not been in compliance with these standards, we could be liable for breach of contract claims brought by our customers.

We could also be required to indemnify our customers for third-party claims, fines, penalties and/or other assessments imposed on our customers as a result of any data security breach and our liability could exceed our insurance coverage or ability to pay. Envestnet's Registered Investment Advisers and Broker-Dealer may face SEC, FINRA and state enforcement actions, including monetary fines, if it is determined that Envestnet had inadequate data security measures in place to prevent such theft.

Our security procedures and technologies are regularly audited by independent security auditors engaged by us, and many of our prospective and current customers conduct their own audits or review the results of such independent security audits as part of their evaluation of our solutions. We are also periodically audited by regulatory agencies to which our operations or our customers are subject. Adverse findings in these audits or examinations, even if not accompanied by any data security breach, could adversely affect our ability to maintain our existing customer relationships and establish new customer relationships.

Data security breaches, acts of fraud involving our solutions, or adverse findings in security audits or examinations, could result in reputational damage to us, which could reduce the use and acceptance of our solutions, cause our customers to cease doing business with us and/or have a significant adverse impact on our revenue and future growth prospects. Further, any of these events could lead to additional regulation and oversight by federal and state agencies, which could impose new and costly compliance obligations and may lead to the loss of our ability to make our solutions available.

Privacy regulations or concerns can affect the way in which we do business and require us to incur significant costs. As part of our business, we gather, refine and aggregate end user-permissioned, non-identified transaction level data which we then provide to customers as data analytics solutions and market research solutions. For privacy or security reasons, privacy groups, governmental agencies and individuals may seek to restrict or prevent our use of this data. New laws in this area have been passed by several jurisdictions imposing restrictions on our use of this data, and other jurisdictions are considering imposing additional restrictions. Furthermore, our use of this data is subject to the consent of our customers. Although our arrangements with customers generally permit us to use non-identified transaction level data, some customers decline to permit the use of this data. The inability to use data from customers may limit the usefulness of the data that we gather and use. Any restrictions on our use of this data, whether regulatory or contractual, could affect the way we do business or limit the usefulness of our solutions and services which could

adversely affect our business.

We are subject to numerous laws, industry standards and contractual obligations relating to the collection, use, and security of end user data. We have incurred, and will continue to incur, significant expenses to comply with these requirements. As our business continues to expand to new industry segments that may be more highly regulated for privacy and data security, and to countries outside the United States that have more strict data protection laws, our compliance requirements and costs may increase.

25

---

## Table of Contents

Our investment advisory services may subject us to liability for losses that result from potential, perceived or actual breaches of our fiduciary duties.

Our investment advisory services involve fiduciary obligations that require us to act in the best interests of our clients, and we may be sued and face liabilities for actual or claimed breaches of our fiduciary duties. Because we provide investment advisory services, both directly and indirectly, with respect to substantial assets we could face substantial liability if it is determined that we have breached our fiduciary duties. In certain circumstances, which generally depend on the types of investment solutions and services we are providing, we may enter into client agreements jointly with advisors and retain third party investment money managers on behalf of clients. As a result, we may be included as a defendant in lawsuits against financial advisors and third party investment money managers that involve claims of breaches of the duties of such persons, and we may face liabilities for the improper actions and/or omissions of such advisors and third party investment money managers. In addition, we may face claims based on the results of our investment advisory recommendations, even in the absence of a breach of our fiduciary duty. Such claims and liabilities could therefore have a material adverse effect on our results of operations, financial condition or business. We are subject to liability for losses that result from potential, perceived or actual conflicts of interest.

Potential, perceived and actual conflicts of interest are inherent in our existing and future business activities and could give rise to client dissatisfaction, litigation or regulatory enforcement actions. In particular, we pay varying fees to third party asset managers and custodians and our financial advisor customers, or their clients, could accuse us of directing them toward those asset managers or custodians that charge us the lowest fees and therefore provide us with a greater financial advantage. In addition, we offer proprietary mutual funds and portfolios of mutual funds through our internal investment management and portfolio consulting group, and financial advisors or their clients could conclude that we favor our proprietary investment products because of their belief that we earn higher fees when our proprietary investment products are used. Adequately addressing conflicts of interest is complex and difficult. If we fail, or appear to fail, to adequately address potential, perceived or actual conflicts of interest, the resulting negative public perception and reputational harm could materially adversely affect our client relations or ability to enter into contracts with new clients and, consequently, our results of operations, financial condition and business.

We may become subject to liability based on the use of our investment solutions and services by our clients.

Our investment solutions and services support the investment processes of our clients, which, in the aggregate, manage billions of dollars of assets. Our client agreements have provisions designed to limit our exposure to potential liability claims brought by our clients or third parties based on the use of our investment solutions and services. However, these provisions have certain exceptions and could be invalidated by unfavorable judicial decisions or by federal, state, foreign or local laws. Use of our products as part of the investment process creates the risk that clients, or the parties whose assets are managed by our clients, may pursue claims against us for very significant dollar amounts. Any such claim, even if the outcome were to be ultimately favorable to us, would involve a significant commitment of our management, personnel, financial and other resources and could have a negative impact on our reputation. Such claims and lawsuits could therefore have a material adverse effect on our results of operations, financial condition or business.

Furthermore, our clients may use our investment solutions and services together with software, data or products from other companies. As a result, when problems occur, it might be difficult to identify the source of the problem. Even when our investment solutions and services do not cause these problems, the existence of these errors might cause us to incur significant costs and divert the attention of our management and technical personnel, any of which could materially adversely affect our results of operations, financial condition or business.

If our reputation is harmed, our results of operations, financial condition or business could be materially adversely affected.

Our reputation, which depends on earning and maintaining the trust and confidence of our clients and end users, is critical to our business. Our reputation is vulnerable to many threats that can be difficult or impossible to control, and costly or impossible to remediate. Regulatory inquiries or investigations, data security breaches, lawsuits initiated by our clients or stockholders, employee misconduct, perceptions of conflicts of interest and rumors, among other developments, could substantially damage our reputation, even if they are baseless or satisfactorily addressed. In addition, any perception that the quality of our solutions and services may not be the same or better than that of other

providers, can also damage our reputation. Any damage to our reputation could harm our ability to attract and retain clients, which would materially adversely affect our results of operations, financial condition and business. Attempts to repair our reputation, if damaged may be costly and time consuming, and such efforts may not ultimately be successful.

## Table of Contents

If our investment solutions and services fail to perform properly due to undetected errors or similar problems, our results of operations, financial condition and business could be materially adversely affected.

Investment solutions and services we develop or license may contain undetected errors or defects despite testing. Such errors can exist at any point in the life cycle of our investment solutions or services, but are frequently found after introduction of new investment solutions and services or enhancements to existing investment solutions or services. We continually introduce new investment solutions and services and new versions of our investment solutions and services. Despite internal testing and testing by current and potential clients, our current and future investment solutions and services may contain serious defects or malfunctions. If we detect any errors before release, we might be required to delay the release of the investment solution or service for an extended period of time while we address the problem. We might not discover errors that affect our new or current investment solutions, services or enhancements until after they are deployed, and we may need to provide enhancements to correct such errors. Errors may occur that could have a material adverse effect on our results of operations, financial condition or business and could result in harm to our reputation, lost sales, delays in commercial release, third party claims, regulatory actions, contractual disputes, contract terminations or renegotiations, or unexpected expenses and diversion of management and other resources to remedy errors. In addition, negative public perception and reputational damage caused by such claims would adversely affect our client relationships and our ability to enter into new contracts. Any of these problems could have a material adverse effect on our results of operations, financial condition and business.

We could face liability or incur costs to remediate operational errors or to address possible customer dissatisfaction. Operational risk generally refers to the risk of loss resulting from our operations, including, but not limited to, improper or unauthorized execution and processing of transactions, deficiencies in our operating systems, business disruptions and inadequacies or breaches in our internal control processes. The success of our business depends on our ability to mitigate those operational risks and deliver time-sensitive services. We operate in diverse markets and are reliant on the ability of our employees and systems to process large volumes of transactions often within short time frames. Our operations and those of third parties on whom we rely for information and transaction processing services are vulnerable to interruption by technical breakdowns, computer hardware and software malfunctions, software viruses, infrastructure failures, fire, earthquake, power loss, telecommunications failure, terrorist attacks, wars, Internet failures and other events beyond our control. In the event of any such interruptions or improper operation of systems, human error or improper action by employees, we could suffer financial loss, regulatory sanctions or damage to our reputation.

In addition, our contracts with our customers often include stringent requirements for us to maintain certain levels of performance and service availability. Failure by us to meet these contractual requirements could result in a claim for substantial damages against us, regardless of whether we are responsible for that failure. Our customers may also delay or withhold payment to us, elect to terminate or not to renew their contracts with us, or refuse to integrate our solutions into their online offerings, or we could lose future sales to new customers as a result of damage to our reputation due to such service downtime or interruptions. If we suffer a significant database or network facility outage, our business could experience disruption until we fully implement our back-up systems. The occurrence of any such disruptions in our solutions could materially and adversely affect our business.

Furthermore, there may be circumstances when our customers are dissatisfied with our investment solutions and services, even in the absence of an operational error. In such circumstances, we may elect to make payments or otherwise incur increased costs or lower revenues in order to maintain a strong customer relationship. In any of the forgoing circumstances, our results of operations, financial condition or business could be materially adversely affected.

Our business relies heavily on computer equipment, electronic delivery systems and the Internet. Any failures or disruptions in such technologies could result in reduced revenues, increased costs and the loss of customers.

Our business relies heavily on our computer equipment (including our servers), electronic delivery systems and the Internet, but these technologies are vulnerable to disruptions, failures or slowdowns caused by fire, earthquake, power loss, telecommunications failure, terrorist attacks, wars, Internet failures, computer viruses and other events beyond our control. We derive our subscription revenue from licenses to a single software platform, and related support and professional services. As such, any factor adversely affecting subscriptions to that single software platform, including

those described elsewhere under “Risk Factors” or in other portions of this Form 10-K, would harm our business and operating results. Furthermore, we rely on agreements with our suppliers, such as our current data hosting and service provider, to provide us with access to certain computer equipment, electric delivery systems and the Internet. We are unable to predict whether a future contractual dispute may arise with one of our suppliers that could cause a disruption in service, or whether our agreements with our suppliers can be obtained or renewed on acceptable terms, or at all. An unanticipated disruption, failure or slowdown affecting our key technologies or facilities may have significant ramifications, such as data loss, data corruption, damaged software codes or

Table of Contents

inaccurate processing of transactions. We maintain off site back up facilities for our electronic information and computer equipment, but these facilities could be subject to the same interruptions that may affect our primary facilities. Any significant disruptions, failures, slowdowns, data loss or data corruption could have a material adverse effect on our results of operations, financial condition or business and result in the loss of customers.

If we fail to process transactions effectively or fail to adequately protect against disputed or potential fraudulent activities, our revenue and earnings may be harmed.

Investnet | Yodlee processes a significant volume and dollar value of transactions on a daily basis using its money movement solutions. Effective processing systems and controls are essential to ensure that transactions are handled appropriately. Despite our efforts, it is possible that we may make errors or that funds may be misappropriated due to fraud. If we are unable to effectively manage our systems and processes we may be unable to process money movement transactions in an accurate, reliable and timely manner, which may harm our business. In addition, if we do not detect suspected fraudulent or non-sufficient fund transactions within agreed-upon timelines, we may be required to reimburse our customers for the transactions and such reimbursements may exceed the amount of the reserves we have established to make such payments.

The online payments industry has been experiencing an increasing amount of fraudulent activities by third parties. Although we do not believe that any of this activity is uniquely targeted at our business, this type of fraudulent activity may adversely impact us. In addition to any direct damages and potential fines that may result from such fraud, which may be substantial, a loss of confidence in our controls may seriously harm our business and damage our reputation. We may implement risk control mechanisms that could make it more difficult for legitimate end users to use our solutions, which could result in lost revenue and negatively impact our operating results.

If we are unable to maintain our payment network with third-party service providers, or if our disbursement partners encounter business difficulties, our business could be harmed.

Investnet | Yodlee's payment network consists of a single Originating Deposit Financial Institution ("ODFI"), and a small number of bill payment processors. Our ODFI clears and processes the funds from the customer. In the instance of funds transfers, the ODFI also processes funds to the end user's destination institution. For bill payment, funds are sent to the bill pay processors for disbursement to biller sites.

While we have entered into an agreement with our ODFI and each of our bill payment processors, these partners could choose to terminate or not renew their agreements with us. If we are unable to maintain our agreements with our current partners, or our current partners are unable to handle increased transaction volumes, our ability to disburse transactions and our revenue and business may be harmed. If we are unable to sign new payment processors and/or ODFIs under terms consistent with, or better than, those currently in place, our revenue and business may be harmed. Payment processors and ODFI partners also engage in a variety of activities in addition to providing our services and may encounter business difficulties unrelated to our services. Such activities or difficulties could cause the affected partner to reduce the services provided, cease to do business with us, or cease doing business altogether. This could lead to our inability to move funds on a timely basis as required to settle transactions. In addition, because we offer next day automated clearing house transactions in certain cases, if a disbursement partner experiences insufficient liquidity or ceases to do business, we may not be able to recover funds that are held with that disbursement partner which could harm our financial condition and operating results.

We may also be forced to cease doing business with payment processors and/or ODFIs if rules governing electronic funds transfers change or are reinterpreted to make it difficult or impossible for us to operate our money movement solutions.

If sources from which we obtain information limit our access to such information or charge us fees for accessing such information, our business could be materially and adversely harmed.

Our Investnet | Yodlee data aggregation solutions require certain data that we obtain from thousands of sources, including banks, other financial institutions, retail businesses and other organizations, some of which are not our current customers. As of December 31, 2018, we receive over 60% of this data through structured data feeds that are provided under the terms of our contracts with most of our financial institution, or FI, customers. Although all of the information we currently gather is end user-permissioned, non-identified data and, currently, we generally have free, unrestricted access to, or ability to use, such information, one or more of our current customers could decide to limit



or block our access to the data feeds we currently have in place with these customers due to factors outside of our control such as more burdensome regulation of our or our customers' industry, increased compliance requirements or changes in business strategy. If the sources from which we

28

---

Table of Contents

obtain information that is important to our solutions limit or restrict our ability to access or use such information, we may be required to attempt to obtain the information, if at all, through end user-permissioned data scraping or other means that could be more costly and time-consuming, and less effective or efficient. In the past, a limited number of third parties, primarily airline and international sites, have either blocked our access to their websites or requested that we cease employing data scraping of their websites to gather information, and we could receive similar, additional requests in the future. Any such limitation or restriction may also preclude us from providing our solutions on a timely basis, if at all. In addition, if in the future one or more third parties challenge our right to access information from these sources, we may be required to negotiate with these sources for access to their information or to discontinue certain services currently provided by our solutions. The legal environment surrounding data scraping and similar means of obtaining access to information on third-party websites is not completely clear and is evolving, and one or more third parties could assert claims against us seeking damages or to prevent us from accessing information in that manner. In the event sources from which we obtain this information begin to charge us fees for accessing such information, we may be forced to increase the fees that we charge our customers, which could make our solutions less attractive, or our gross margins and other financial results could suffer.

Failure by our customers to obtain proper permissions and waivers might result in claims against us or may limit or prevent our use of data, which could harm our business.

For some of our solutions we require our customers to provide necessary notices and to obtain necessary permissions and waivers for use and disclosure of information through our solutions. Our contracts with our customers for these services include assurances from them that they have done so and will do so, but we do not audit our customers to ensure that they have acted, and continue to act, consistent with such assurances. If, despite these requirements and contractual obligations, our customers do not obtain necessary permissions and waivers, then our use and disclosure of information that we receive from them or on their behalf might be limited or prohibited by federal, state or foreign privacy laws or other laws. Such a failure to obtain proper permissions and waivers could impair our functions, processes and databases that reflect, contain, or are based upon such data and might prevent use of such data. In addition, such a failure could interfere with, or prevent creation or use of, rules, analyses, or other data-driven activities that benefit us and our business. Moreover, we might be subject to claims or liability for use or disclosure of information by reason of lack of valid notices, agreements, permissions or waivers. These claims or liabilities could subject us to unexpected costs and adversely affect our operating results.

We could face liability for certain information we provide, including information based on data we obtain from other parties.

We may be subject to claims for securities law violations, negligence, breach of fiduciary duties or other claims relating to the information we provide. For example, individuals may take legal action against us if they rely on information we have provided and it contains an error. In addition, we could be subject to claims based upon the content that is accessible from our website through links to other websites. Moreover, we could face liability based on inaccurate information provided to us by others. Defending any such claims could be expensive and time consuming, and any such claim could materially adversely affect our results of operations, financial condition or business.

Our insurance coverage and contractual liability limitations may fail to provide adequate protections.

We maintain general liability insurance coverage, including coverage for errors or omissions; however, this coverage may not continue to be available on reasonable terms or may be insufficient to cover one or more large claims. An insurer might disclaim coverage as to any future claim. A successful assertion of one or more large claims against us that exceeds our available insurance coverage or changes in our insurance policies, including premium increases or the imposition of a large deductible or co-insurance requirement, could harm our operating results and financial condition. Additionally, although we attempt to limit our contractual liability in delivering our solutions, these limitations on liability may be unenforceable in some cases, or may be insufficient to protect us from liability for damages.

We depend on our senior management team and other key personnel and the loss of their services could have a material adverse effect on our results of operations, financial condition or business.

We depend on the efforts, relationships and reputations of our senior management team and other key personnel, in order to successfully manage our business. We believe that success in our business will continue to be based upon the

strength of our intellectual capital. The loss of the services of any member of our senior management team or of other key personnel could have a material adverse effect on our results of operations, financial condition or business.

## Table of Contents

Our future success depends on our ability to recruit and retain qualified employees.

Our ability to provide our services and maintain and develop relationships with clients depends largely on our ability to attract, train, motivate and retain highly skilled professionals, particularly professionals with backgrounds in sales, marketing, technology and financial and investment services. Consequently, we must hire and retain employees with the technical expertise and industry knowledge necessary to continue to develop our services and effectively manage our growing sales and marketing organization to assist the growth of our operations.

We believe there is significant competition for professionals with the skills necessary to perform the services we offer. We experience competition for these professionals from competitors, other technology companies and financial services organizations, many of which have greater resources than we do and therefore may be able to offer higher compensation packages. Competition for these employees is intense, and we may not have sufficient human resources programs, practices and benefits to be able to retain our existing employees, or be able to recruit and retain other highly skilled personnel. If we cannot hire and retain qualified personnel, our ability to sustain and continue to expand our business would be impaired and our revenue, operating results and financial condition could be harmed.

Our operations are subject to extensive government regulation, and compliance failures or regulatory action against us could adversely affect our results of operations, financial condition or business.

The financial services industry is among the most extensively regulated industries in the United States. We operate investment advisory, broker-dealer, and mutual fund lines of business, each of which is subject to a specific and extensive regulatory scheme. In addition, we are subject to numerous laws and regulations of general application. It is very difficult to predict the future impact of the legislative and regulatory requirements affecting our business and our clients' businesses.

Certain of our subsidiaries are registered as "investment advisers" with the SEC under the Advisers Act and are regulated thereunder. In addition, many of our investment advisory services are conducted pursuant to the non-exclusive safe harbor from the definition of an "investment company" provided under Rule 3a-4 under the Investment Company Act. If Rule 3a-4 were to cease to be available, or if the SEC were to modify the rule or its interpretation of how the rule is applied, our business could be adversely affected. Certain of our registered investment adviser subsidiaries provide advice to mutual fund clients. Mutual funds are registered as "investment companies" under the Investment Company Act. Our advisory subsidiaries provide advice on assets subject to the ERISA. The Advisers Act, Investment Company Act and ERISA, together with related regulations and interpretations of the SEC and the Department of Labor, impose numerous obligations and restrictions on investment advisers and mutual funds, including requirements relating to the safekeeping of client funds and securities, limitations on advertising, disclosure and reporting obligations, prohibitions on fraudulent activities, restrictions on transactions between an adviser and its clients, and between a mutual fund and its advisers and affiliates, and other detailed operating requirements, as well as general fiduciary obligations.

In addition, PBS, our broker-dealer subsidiary, is registered as a broker-dealer with the SEC and with all 50 states and the District of Columbia, and is a member of FINRA, a securities industry self-regulatory organization that supervises and regulates the conduct and activities of its members. Broker-dealers are subject to regulations that cover all aspects of their business, including sales practices, market making and trading among broker-dealers, use and safekeeping of customer funds and securities, capital structure, recordkeeping and the conduct of directors, officers, employees, representatives and associated persons. FINRA conducts periodic examinations of the operations of its members, including PBS. As a broker-dealer, PBS is also subject to certain minimum net capital requirements under SEC and FINRA rules. Compliance with the net capital rules may limit our ability to withdraw capital from PBS.

Envestnet | Yodlee is examined on a periodic basis by various regulatory agencies. For example, it is a supervised third-party technology service provider subject to multi-agency supervisory examinations in a wide variety of areas based on published guidance by the Federal Financial Institutions Examination Council. These examinations include examinations of our management, acquisition and development activities, support and delivery, IT, and disaster preparedness and business recovery planning. The Office of the Comptroller of the Currency is the agency in charge of these examinations. If deficiencies are identified, customers may choose to terminate or reduce their relationships with us.

Either as a result of direct regulation or obligations under customer agreements, many of our subsidiaries are required to comply with certain provisions of the Gramm-Leach-Bliley Act, related to the privacy of consumer information and may be subject to other privacy and data security laws because of the solutions we provide. In addition, numerous regulations have been proposed and are still being written to implement the Dodd-Frank Act for enhanced due diligence of the internal systems and processes of companies like ours by their regulated customers. If we are required to make changes to our internal processes

30

---

Table of Contents

and solutions as result of this heightened scrutiny, we could be required to invest substantial additional time and funds and divert time and resources from other corporate purposes to remedy any identified deficiency.

All of the foregoing laws and regulations are complex, evolving, unclear and inconsistent across various jurisdictions and we are required to expend significant resources in order to maintain our monitoring of, and compliance with, such laws and regulations. We continually develop improvements to our existing products and services as well as new products and services. Many of these improvements or new products and services may implicate regulations to which we may not already be subject or with which we may not have experience. Any failure on our part to comply with these and other applicable laws and regulations could result in decreasing the demand for these products and services, increasing our potential liability or increase or costs, regulatory fines, suspensions of personnel or other sanctions, including revocation of our subsidiaries as an investment adviser or broker dealer, as the case may be, which could, among other things, require changes to our business practices and scope of operations or harm our reputation. Any of the foregoing could have a material adverse effect on our results of operations, financial condition or business. Changes to the laws or regulations applicable to us or to our clients could adversely affect our results of operations, financial condition or business.

We may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC or other U.S. or foreign governmental regulatory authorities or self regulatory organizations that supervise the financial markets around the world. In addition, we may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self regulatory organizations. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any current proposals will become law, and it is difficult to predict how any changes or potential changes could affect our business. Changes to laws or regulations could increase our potential liability in connection with the investment solutions and other services that we provide. The introduction of any new laws or regulations could make our ability to comply with applicable laws and regulations more difficult and expensive. Any of the foregoing could have a material adverse effect on our results of operations, financial condition or business.

A deemed "change of control" of our company could require us to obtain the consent of our clients and a failure to do so properly could adversely affect our results of operations, financial condition or business.

Under the Advisers Act, the investment advisory agreements entered into by our investment adviser subsidiaries may not be assigned without the client's consent. Under the Investment Company Act, advisory agreements with registered funds terminate automatically upon assignment and, any assignment of an advisory agreement must be approved by the board of directors and the shareholders of the registered fund. Under the Advisers Act and the Investment Company Act, such an assignment may be deemed to occur upon a change of control of the Company. A change of control includes either gaining or losing a "controlling person." Whether someone is a controlling person for these purposes depends significantly on the specific facts and circumstances. There can be no assurance that if we undergo a change of control, we would be successful in obtaining all necessary consents or that the method by which we obtain such consents could not be challenged at a later time. If we are unable to obtain all necessary consents or if such a challenge were to be successful it could have a material adverse effect on our results of operations, financial condition or business.

We rely on exemptions from certain laws and if for any reason these exemptions were to become unavailable to us, we could become subject to regulatory action or third party claims and our business could be materially and adversely affected.

We regularly rely on exemptions from various requirements of the Exchange Act, the Advisers Act, the Investment Company Act and ERISA in conducting our activities. These exemptions are sometimes highly complex and may in certain circumstances depend on compliance by third parties whom we do not control. If for any reason these exemptions were to become unavailable to us, we could become subject to regulatory action or third party claims and our business could be materially and adversely affected.

If government regulation of the Internet or other areas of our business changes, or if consumer attitudes toward use of the Internet change, we may need to change the manner in which we conduct our business or incur greater operating expenses.

The adoption, modification or interpretation of laws or regulations relating to the Internet or other areas of our business could adversely affect the manner in which we conduct our business. Such laws and regulations may cover sales practices, taxes, user privacy, data protection, pricing, content, copyrights, distribution, electronic contracts, consumer protection, broadband residential Internet access and the characteristics and quality of services. Moreover, it is not clear how existing laws governing these matters apply to the Internet. If we are required to comply with new regulations or legislation or

31

---

Table of Contents

new interpretations of existing regulations or legislation, we may be required to incur additional expenses or alter our business model, either of which could have a material adverse effect on our results of operations, financial condition or business.

We are substantially dependent on our intellectual property rights, and a failure to protect these rights could adversely affect our results of operations, financial condition or business.

We have made substantial investments in software and other intellectual property on which our business is highly dependent. As of December 31, 2018, notwithstanding expiration of some of our oldest patents, we had over 50 issued patents in the U.S. and foreign jurisdictions as well as additional pending patent applications in the U.S. and foreign jurisdictions. Many of our key technologies, investment solutions or services are not covered by any copyright registration, issued patent or patent application. We are the owner of certain patent rights, registered trademarks in the United States, including “ENVESTNET,” and we claim common law rights in other trademarks that are not registered. We rely on a combination of patent, trade secret, trademark and copyright laws, confidentiality and nondisclosure agreements and other contractual and technical security measures to protect our proprietary technology, all of which provide only limited protection. Despite our efforts, unauthorized copying or other misappropriation of our proprietary technologies could enable third parties to benefit from our intellectual property rights without paying us for doing so, which could harm our business. Policing unauthorized use of proprietary technology is difficult and expensive and our monitoring and litigation may be necessary to protect and enforce our intellectual property rights. If litigation is necessary to protect and enforce our intellectual property rights, any such litigation could be very costly and could divert management attention and resources. If we are unable to protect our intellectual property rights or if third parties independently develop or gain access to our or similar technologies, investment solutions or services, our results of operations, financial condition and business could be materially adversely affected.

We cannot guarantee that:

- our intellectual property rights will provide competitive advantages to us;
- our ability to assert our intellectual property rights against potential competitors or to settle current or future disputes will not be limited by our agreements with third parties;
- our intellectual property rights will be enforced in jurisdictions where competition may be intense or where legal protection may be weak;
- any of the trademarks, copyrights, trade secrets or other intellectual property rights that we presently employ in our business will not lapse or be invalidated, circumvented, challenged or abandoned;
- our trademark applications will lead to registered trademarks;
- competitors will not design around our intellectual property rights or develop similar technologies, investment solutions or products; or that we will not lose the ability to assert our intellectual property rights against others; or
- Our ability to identify and police any misappropriation and protect our proprietary technology will be sufficient.

We are also a party to a number of third party intellectual property license agreements. Some of these license agreements require us to make one time payments or ongoing subscription payments. We cannot guarantee that the third party intellectual property we license will not be licensed to our competitors or others in our industry. In the future, we may need to obtain additional licenses or renew existing license agreements. We are unable to predict whether these license agreements can be obtained or renewed on acceptable terms, or at all. In addition, we have granted our customers certain rights to use our intellectual property in the ordinary course of our business. Some of our customer agreements restrict our ability to license or develop certain customized technology or services within certain markets or to certain competitors of our customers. For example, our agreement with Fidelity restricts our ability to develop certain integration features that we have not also offered to develop for Fidelity. Some of our customer agreements grant our customers ownership rights with respect to the portion of the intellectual property we have developed or customized for our customers. In addition, some of our customer agreements require us to deposit the source code to the customized technology and investment solutions with a source code escrow agent, which source code may be released in the event we enter into bankruptcy or are unable to provide support and maintenance of the technology or investment solutions we have licensed to our customers. These provisions in our agreements may limit our ability to grow our business in the future.



Third parties may assert intellectual property infringement claims against us which, if successful, could require us to pay significant damages or make changes to the investment solutions or services that we offer.

Third parties may assert against us intellectual property infringement claims with respect to our internally developed or acquired technologies, investment solutions or services. In addition, we license content, software and other intellectual property rights from third parties and may be subject to claims of infringement if such parties do not possess the necessary intellectual property rights to the products they license to us. The risk of infringement claims against us will increase if more of our competitors are able to obtain patents for investment solutions or services or business processes. In addition, we face

Table of Contents

additional risk of infringement or misappropriation claims if we hire an employee who possesses third party proprietary information who decides to use such information in connection with our investment solutions, services or business processes without such third party's authorization. We have in the past been and may in the future be subject to legal proceedings and claims that we have infringed or misappropriated the intellectual property rights of a third party. These claims sometimes involve patent holding companies who have no relevant product revenues and against whom our own proprietary technology may therefore provide little or no deterrence. In addition, third parties may in the future assert intellectual property infringement claims against our customers, which, in certain circumstances, we have agreed to indemnify. Any intellectual property related infringement or misappropriation claims, whether or not meritorious, could result in costly litigation and could divert management resources and attention. Moreover, should we be found liable for infringement or misappropriation, we may be required to enter into licensing agreements, if available on acceptable terms or at all, pay substantial damages or make changes to the investment solutions and services that we offer. Any of the foregoing could prevent us from competing effectively, result in substantial costs to us, divert management's attention and our resources away from our operations and otherwise harm our reputation. The use of "open source code" in investment solutions may expose us to additional risks and harm our intellectual property rights.

To a limited extent, we rely on open source code to develop our platform, investment and other solutions and support for our internal systems and infrastructure. While we monitor our use of open source code to attempt to avoid subjecting our solutions to conditions we do not intend, such use could inadvertently occur. Additionally, if a third party software provider has incorporated certain types of open source code into software we license from such third party for our solutions, we could, under certain circumstances, be required to disclose the source code for our solutions. This could harm our intellectual property position and have a material adverse effect on our results of operations, financial condition and business.

Confidentiality agreements with employees, consultants and others may not adequately prevent disclosure of trade secrets and other proprietary information.

We have devoted substantial resources to the development of our proprietary technologies, investment solutions and services. In order to protect our proprietary rights, we enter into confidentiality agreements with our employees, consultants and independent contractors. These agreements may not effectively prevent unauthorized disclosure of confidential information or unauthorized parties from copying aspects of our technologies, investment solutions or products or obtaining and using information that we regard as proprietary. Moreover, these agreements may not provide an adequate remedy in the event of such unauthorized disclosures of confidential information and we cannot assure you that our rights under such agreements will be enforceable. In addition, others may independently discover trade secrets and proprietary information, and in such cases we could not assert any trade secret rights against such parties. Costly and time consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could reduce any competitive advantage we have developed and cause us to lose customers or otherwise harm our business.

As a global organization, our business is susceptible to risks associated with our international operations and sales. We currently maintain international operations in India, the United Kingdom, Canada and Australia, lease space in other jurisdictions outside of the United States for the purpose of gathering data, and have customers located around the globe. Managing a global organization and conducting sales outside of the United States is difficult and time-consuming and introduces risks that we may not face with our operations and sales in the United States. These risks include:

- the burdens of complying with a wide variety of foreign regulations, laws and legal standards, including privacy, data security, tax and employment, some of which may be materially different or more stringent than those of the United States;
- regional data privacy laws that apply to the transmission of data across international borders;
- lack of familiarity with, and unexpected changes in, foreign regulatory requirements;
- customers' unfamiliarity with and concerns regarding laws and regulations of the United States that may impact our business operations in their jurisdictions;
- negative, local perception of industries and customers that we may pursue;

- laws and business practices favoring local competitors;
- localization of our solutions, including unanticipated costs related to translation into foreign languages and adaptation for local practices and regulatory requirements;
- different pricing environments and longer sales cycles;
- longer accounts receivable payment cycles and difficulties in collecting accounts receivable;
- difficulties in managing and staffing international operations;

## Table of Contents

- reduced or varied protection for intellectual property rights in some countries;
- compliance with laws and regulations for foreign operations, including the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, import and export control laws, tariffs, trade barriers, economic sanctions and other regulatory or contractual limitations on our ability to sell our solutions in certain foreign markets, and the risks and costs of compliance;
- fluctuations in currency exchange rates;
- potentially adverse tax consequences, including the complexities of foreign value added tax systems, difficulty in interpreting international tax laws and restrictions on the repatriation of earnings;
- increased financial accounting and reporting burdens and complexities; and
- political, social and economic instability abroad, terrorist attacks and security concerns in general.

Operating in international markets also requires significant management attention and financial resources. A component of our growth strategy involves the further expansion of our operations and the development of new customer relationships internationally. As we seek to expand internationally, we will need to develop relationships with additional partners and add internal capabilities to effectively manage the operational, financial, legal and regulatory requirements and risks associated with our international operations. The investment we make and additional resources we use to expand our operations, target new international customers, expand our presence globally within our existing customers and manage operational and sales growth in other countries may not produce desired levels of revenue or profitability, which could adversely affect our business and operating results. If we are unable to effectively manage certain risks and challenges related to our India operations, our business could be harmed.

Our India operations are a key factor to our success. We believe that our significant presence in India provides certain important advantages for our business, such as direct access to a large pool of skilled professionals and assistance in growing our business internationally. However, it also creates certain risks that we must effectively manage. As of December 31, 2018, approximately 2,500 of our total employees were based in India. Wage costs in India for skilled professionals are currently lower than in the United States for comparably skilled professionals. However, wages in India are increasing at a faster rate than in the United States, which could result in us incurring increased costs for technical professionals and reduced margins. There is intense competition in India for skilled technical professionals, and we expect such competition to increase. As a result, we may be unable to cost-effectively retain our current employee base in India or hire additional new talent. In addition, India has experienced significant inflation, low growth in gross domestic product and shortages of foreign exchange. India also has experienced civil unrest and terrorism and, in the past, has been involved in conflicts with neighboring countries. The occurrence of any of these circumstances could result in disruptions to our India operations, which, if continued for an extended period of time, could have a material adverse effect on our business. If we are unable to effectively manage any of the foregoing risks related to our India operations, our development efforts could be impaired, our growth could be slowed, and our operating results could be negatively impacted.

We face exposure to foreign currency exchange rate fluctuations.

We have costs denominated in foreign currencies, primarily the Indian Rupee, and our revenue is primarily denominated in the U.S. dollar. This exposes us to the risk of fluctuations in foreign currency exchange rates. Accordingly, changes in exchange rates, and in particular a weakening of the U.S. dollar, would negatively affect our expenses and other operating results as expressed in U.S. dollars.

We are a multinational organization faced with increasingly complex tax issues in several jurisdictions, and we could be obligated to pay additional taxes in various jurisdictions.

As a multinational organization, we may be subject to taxation in several jurisdictions around the world with increasingly complex tax laws, the application of which can be uncertain. The amount of taxes we pay in these jurisdictions could increase substantially as a result of changes in the applicable tax principles, including increased tax rates, new tax laws or revised interpretations of existing tax laws and precedents, which could have a material adverse effect on our liquidity and operating results. In addition, the authorities in these jurisdictions could review our tax returns and impose additional tax, interest and penalties, and the authorities could claim that various withholding

requirements apply to us or our subsidiaries or assert that benefits of tax treaties are not available to us or our subsidiaries, any of which could have a material impact on us and the results of our operations. For example, the taxing authorities of India and other jurisdictions in which we operate may challenge our methodologies for allocating income and expense under our intercompany arrangements, including our transfer pricing, or determine that the manner in which we operate our business is not consistent with the manner in which we report our income to the jurisdictions. If such a disagreement were to occur, and our positions were not sustained, we could be

## Table of Contents

required to pay additional taxes, interest and penalties, resulting in higher effective tax rates, reduced cash flows and higher expenses.

Due to uncertainty in the application and interpretation of applicable state sales and use tax laws, we may be subject to additional tax liability.

We and our customers are subject to a variety of sales, use and other tax laws in the various states and cities in which we and they do business. These laws and their interpretations change from time to time and often do not address with clarity their applicability to the types of products and services we and our subsidiaries provide. Vendors, like us, are typically held responsible by taxing authorities for the collection and payment of any applicable sales and use taxes, even when owed by the end user. If one or more taxing authorities determines that taxes should have, but have not, been paid with respect to our products or services, we might be liable for past taxes in addition to taxes going forward. Liability for past taxes might also include interest and penalty charges. We are often entitled to seek reimbursement from our customers for any sales and use taxes we pay either under the terms of our customer contracts or under applicable law or legal principles. Nevertheless, our customers might be reluctant to pay back taxes and might refuse responsibility for interest or penalties associated with those taxes. If we are required to collect and pay back taxes and any associated interest and penalties, and if our clients do not reimburse us for all or a portion of these amounts, we will incur unplanned expenses that may be substantial. Moreover, imposition of such taxes on us going forward will effectively increase the cost of our products and services to our customers and might adversely affect our ability to retain existing customers or to gain new customers in the areas in which such taxes are imposed.

For the year ended December 31, 2018 and 2017, the Company estimated that a sales and use tax liability of \$8,643 and \$8,522, respectively, was probable related to current and prior years revenues in a number of taxing jurisdictions. In addition, for the same periods, the Company estimated a sales tax receivable of \$5,246 and \$2,704, respectively, related to estimated recoverability of a portion of the liability. During 2018, 2017 and 2016 the Company recorded a net sales and use tax benefit of \$1,176 including interest of \$130, and a net sales and use tax expense of \$345 and \$6,229 including interest of \$244 and \$914, respectively. Additional future information obtained from the applicable jurisdictions or audits by one or more taxing authorities may affect our estimate of our sales and use tax liability. There can be no assurance that we will not be subject to sales and use taxes or related penalties for past sales in jurisdictions where we currently believe no such taxes are required.

Changes in accounting principles or standards, or in the way they are applied, could result in unfavorable accounting charges or effects and unexpected financial reporting fluctuations, and could adversely affect our reported operating results even if there are no underlying changes in the economics of the business.

We prepare our consolidated financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”), which are subject to interpretation by the SEC and other regulatory bodies. A change in existing principles, standards or guidance can have a significant effect on our reported results, may retroactively affect previously reported results, could cause unexpected financial reporting fluctuations, and may require us to make costly changes to our internal controls, operational and financial reporting processes.

Changes in the estimates of fair value of reporting units or of long-lived assets, particularly goodwill and intangible assets, may result in future impairment charges, which could have a material adverse effect on our results of operations, financial condition, cash flows or business.

Over time, the fair values of long-lived assets change. At December 31, 2018, we had \$519,102 of goodwill and \$305,241 of intangible assets, net, representing 63% of our total assets.

Goodwill is reviewed for impairment each year using a qualitative or quantitative process that is performed at least annually or whenever events or circumstances indicate that impairment may have occurred. The Company performs the annual impairment analysis on October 31 in order to provide management time to complete the analysis prior to year-end. Prior to performing the quantitative evaluation, an assessment of qualitative factors may be performed to determine whether it is more likely than not that the fair value of a reporting unit exceeds the carrying value. If it is determined that it is unlikely that the carrying value exceeds the fair value, the Company is not required to complete the quantitative goodwill impairment evaluation. If it is determined that the carrying value may exceed fair value when considering qualitative factors, a quantitative goodwill impairment evaluation is performed. When performing the quantitative evaluation, if the carrying value of the reporting unit exceeds its fair value, an impairment loss equal

to the difference will be recorded. The identification of reporting units and consideration of aggregation criteria requires management's judgment. Based on the relevant GAAP authoritative guidance, we aggregate components of a single operating segment into a reporting unit, if appropriate. Future goodwill impairment charges may occur if estimates of fair values decrease, which would reduce future earnings.

## Table of Contents

We test our indefinite lived intangible assets on an annual basis and more often if an event occurs or circumstances change that would more likely than not reduce the fair value of the indefinite lived intangible asset below its carrying amount. We also test property, plant, and equipment and other intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Future asset impairment charges may occur if asset utilization declines, if customer demand decreases, or for a number of other reasons, which would reduce future earnings. Any such impairment charges could have a material adverse effect on our business, financial condition, results of operations, and cash flows. Impairment charges would also reduce our consolidated stockholders' equity and increase our debt-to-total-capitalization ratio, which could negatively impact our access to the debt and equity markets.

During the fourth quarter of 2018, we completed our annual goodwill impairment analysis. The quantitative analysis performed as of October 31, 2018 indicated that it is more likely than not that the fair value of each reporting unit exceeded the carrying value, and accordingly, no impairment existed. There can be no assurance that our estimates and assumptions of the fair value of our reporting units, the current economic environment, or the other inputs used to estimate the fair value of our reporting units will prove to be accurate, and any material error in our estimates and assumptions, could result in us needing to take a material impairment charge, which would have the effects discussed above.

As part of our ongoing monitoring efforts, we will continue to consider capital markets and other economic factors and its potential impact on our businesses, as well as other factors, in assessing goodwill and other long-lived assets for possible indications of impairment.

The conditional conversion feature of our Convertible Notes, if triggered, may adversely affect our financial condition and operating results.

In the event the conditional conversion feature of either of our \$172,500 of outstanding 2019 Notes or \$345,000 of outstanding 2023 Notes, collectively ("Convertible Notes"), is triggered, holders of the Convertible Notes will be entitled to convert their Convertible Notes at any time during specified periods at their option. We may elect to satisfy our conversion obligation in cash, in shares of our common stock or in a combination of cash and shares of our common stock. If one or more holders elect to convert their Convertible Notes, unless we satisfy our conversion obligation by delivering solely shares of our common stock (other than cash in lieu of any fractional share), we would be required to settle all or a portion of our conversion obligation through the payment of cash, which could adversely affect our liquidity. Furthermore, even if holders do not elect to convert their Convertible Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Convertible Notes as a current rather than long term liability, which would result in a material reduction of our net working capital.

We may not have the ability to raise the funds necessary to settle conversions of the Convertible Notes or purchase the Convertible Notes as required upon a fundamental change, and our existing debt contains, and our future debt may contain, limitations on our ability to pay cash upon conversion or purchase of the Convertible Notes.

Following a fundamental change, holders of Convertible Notes will have the right to require us to purchase their Convertible Notes for cash. A fundamental change may also constitute an event of default or prepayment under, and result in the acceleration of the maturity of, our then existing indebtedness. In addition, upon conversion of the Convertible Notes, unless we settle our conversion obligation solely in shares of our common stock (other than cash in lieu of any fractional share), we will be required to make cash payments in respect of the Convertible Notes being surrendered for conversion. We may not have sufficient financial resources, or will be able to arrange financing, to pay the fundamental change purchase price in cash with respect to any Convertible Notes surrendered by holders for purchase upon a fundamental change or make cash payments upon conversions. In addition, restrictions in our Credit Agreement or future credit facilities or other indebtedness, if any, may not allow us to purchase the Convertible Notes upon a fundamental change or make cash payments upon conversions of the Convertible Notes. Our failure to purchase the Convertible Notes upon a fundamental change or make cash payments upon conversions thereof when required would result in an event of default with respect to the Convertible Notes which could, in turn, constitute a default under the terms of our other indebtedness, if any. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and purchase the Convertible Notes or make cash payments upon conversions thereof.



Fluctuations in interest rates and turmoil in the financial markets could increase our cost of borrowing and impede access to or increase the cost of financing our operations and acquisitions

Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Reserve Board, which recently increased rates and may continue to do so. Increases in interest rates would increase our borrowing costs over time and could

## Table of Contents

negatively impact our results of operations. While we have access to global credit markets, financial markets may experience significant disruption or deterioration, which could make future financing difficult or more expensive to secure and could negatively impact our ability to finance acquisitions.

Holders of our common stock may be diluted by future issuances of common or preferred stock or convertible securities in connection with our incentive plans, acquisitions or otherwise; and future sales of such shares in the public market, or the expectations that such sales may occur, could lower our stock price.

Our charter authorizes us to issue shares of our common stock and options, rights, warrants and appreciation rights relating to our common stock for the consideration and on the terms and conditions established by our Board of Directors in its sole discretion. We could issue a significant number of shares of common stock, or securities convertible into shares of our common stock, in the future in connection with investments or acquisitions. Any of these issuances could dilute our existing stockholders, and such dilution could be significant. Moreover, such dilution could have a material adverse effect on the market price for the shares of our common stock.

The future issuance of shares of preferred stock with voting rights may adversely affect the voting power of the holders of shares of our common stock, either by diluting the voting power of our common stock if the preferred stock votes together with the common stock as a single class, or by giving the holders of any such preferred stock the right to block an action on which they have a separate class vote, even if the action were approved by the holders of our shares of our common stock. The future issuance of shares of preferred stock with dividend or conversion rights, liquidation preferences or other economic terms favorable to the holders of preferred stock could adversely affect the market price for our common stock by making an investment in the common stock less attractive.

We do not currently intend to pay dividends on our common stock for the foreseeable future and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We do not anticipate paying any cash dividends to holders of our common stock in the foreseeable future.

Consequently, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any gains on their investment. Investors seeking cash dividends should not purchase our common stock.

Certain provisions in our charter documents and agreements and Delaware law may inhibit potential acquisition bids for our company and prevent changes in our management.

Our certificate of incorporation and bylaws contains provisions that could depress the trading price of our common stock by acting to discourage, delay or prevent a change of control of our company or changes in management that our stockholders might deem advantageous. As a result of these provisions in our certificate of incorporation, the price investors may be willing to pay for shares of our common stock may be limited.

In addition, we are subject to Section 203 of the Delaware General Corporation Law, which imposes certain restrictions on mergers and other business combinations between us and any holder of 15% or more of our common stock.

### Item 1B. Unresolved Staff Comments

None.

### Item 2. Properties

Our headquarters are located in Chicago, Illinois. Office space is also leased for the Envestnet segment in Denver, Colorado; New York, New York; Garden City, New York; San Jose, California; Sacramento, California; Boston, Massachusetts; Seattle, Washington; Raleigh, North Carolina; Tucson, Arizona; Berwyn, Pennsylvania; Seacucus, New Jersey; Worthington, Ohio; and Trivandrum, India. Office space is leased for the Envestnet | Yodlee segment in Redwood City, California and Bangalore, India. We believe that our office facilities are adequate for our immediate needs and that additional or substitute space is available if needed to accommodate the foreseeable growth of our operations.

Table of Contents

Item 3. Legal Proceedings

The Company is involved in legal proceedings arising in the ordinary course of its business. Legal fees and other costs associated with such actions are expensed as incurred. The Company will record a provision for these claims when it is both probable that a liability has been incurred and the amount of the loss, or a range of the potential loss, can be reasonably estimated. These provisions are reviewed regularly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information or events pertaining to a particular case. Legal proceedings accruals are recorded when and if it is determined that a loss is both probable and reasonably estimable. For litigation matters where a loss may be reasonably possible, but not probable, or is probable but not reasonably estimable, no accrual is established, but if the matter is material, it is subject to disclosures. The Company believes that liabilities associated with any claims, while possible, are not probable, and therefore has not recorded any accrual for any claims as of December 31, 2018. Further, while any possible range of loss cannot be reasonably estimated at this time, the Company does not believe that the outcome of any of these proceedings, individually or in the aggregate, would, if determined adversely to it, have a material adverse effect on its financial condition or business, although an adverse resolution of legal proceedings could have a material adverse effect on the Company's results of operations or cash flow in a particular quarter or year.

Item 4. Mine Safety Disclosures

This section is not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a)Market Information

Our common stock is listed on the New York Stock Exchange under the symbol "ENV".

(b)Holders

The approximate number of holders of record of our common stock was 507 as of February 22, 2019.

Common Stock

As of December 31, 2018, we had 500,000,000 common shares authorized at a par value of \$0.005, of which 48,121,800 shares were outstanding.

Preferred Stock

As of December 31, 2018, we had 50,000,000 preferred shares authorized at a par value of \$0.005, of which no shares were outstanding.

(d)Securities Authorized for Issuance Under Equity Compensation Plan

For a description of securities authorized under our equity compensation plans, see "Note 16 – Stockholders' Equity" to the consolidated financial statements in Part II, Item 8.

(e)Stock Performance Graph

The following graph compares the cumulative return to stockholders for \$100 invested in our common stock relative to the cumulative total returns of the Russell® 2000 Index and The S&P North American Technology Sector Index for each of the last five fiscal years. In calculating total annual stockholder return, reinvestment of dividends, if any, is assumed. The indices are included for comparative purposes only. This graph is not "soliciting material," is not deemed filed with the SEC and is not to be incorporated by reference in any of our filings under the Securities Act, as amended, or the Exchange Act, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

Table of Contents

## 5 YEAR STOCK PERFORMANCE GRAPH

	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Envestnet, Inc.	\$ 100.00	\$ 121.94	\$ 74.07	\$ 87.47	\$ 123.70	\$ 122.06
Russell® 2000 Index	100.00	105.17	100.53	121.96	139.82	124.43
S&P North American Technology Sector Index	100.00	113.76	123.44	138.31	188.43	191.96

The stock price performance included in the graph above is not necessarily indicative of future stock price performance.

(f)Recent Sales of Unregistered Securities

None

(g)Issuer Purchases of Equity Securities

	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publically announced plans or programs	Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs
October 1, 2018 through October 31, 2018	3,878	\$ 53.41	—	1,956,390
November 1, 2018 through November 30, 2018	22,421	53.25	—	1,956,390
December 1, 2018 through December 31, 2018	28,820	49.61	—	1,956,390

Table of Contents

## Item 6. Selected Financial Data

## Consolidated Statements of Operations

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(in thousands, except for share and per share information)				
Total revenues	\$812,363	\$683,679	\$578,164	\$420,919	\$348,748
Operating expenses:					
Cost of revenues	263,400	219,037	180,590	161,309	150,067
Compensation and benefits	317,188	264,392	241,584	139,756	104,457
General and administration	139,984	121,010	115,435	72,900	54,321
Depreciation and amortization	77,626	62,820	63,999	27,962	18,651
Total operating expenses	798,198	667,259	601,608	401,927	327,496
Income (loss) from operations	14,165	16,420	(23,444)	18,992	21,252
Other income (expense), net	(23,327)	(18,109)	(17,046)	(10,004)	1,255
Income (loss) before income tax provision (benefit)	(9,162)	(1,689)	(40,490)	8,988	22,507
Income tax provision (benefit)	(13,172)	1,591	15,077	4,552	8,528
Net income (loss)	4,010	(3,280)	(55,567)	4,436	13,979
Add: Net loss attributable to non-controlling interest	1,745	—	—	—	195
Income (loss) attributable to common shareholders	\$5,755	\$(3,280)	\$(55,567)	\$4,436	\$14,174
Net income (loss) per share attributable to common stockholders					
Basic	\$0.13	\$(0.08)	\$(1.30)	\$0.12	\$0.41
Diluted	\$0.12	\$(0.08)	\$(1.30)	\$0.12	\$0.38
Weighted average common shares outstanding:					
Basic	45,268,002	43,732,148	42,814,222	36,500,843	34,559,558
Diluted	47,384,085	43,732,148	42,814,222	38,386,873	36,877,599

## Consolidated Balance Sheet Data

	December 31,				
	2018	2017	2016	2015	2014
	(in thousands)				
Cash and cash equivalents	\$289,345	\$60,115	\$52,592	\$51,718	\$209,754
Working capital	37,610	(9,248)	(42,870)	(5,808)	172,661
Goodwill and intangible assets	824,343	655,686	697,494	713,948	163,630
Total assets	1,313,747	862,052	872,401	876,249	439,358
Long-term debt	294,725	240,158	252,984	284,753	145,203
Stockholders' equity	633,700	436,272	412,889	439,529	201,435

## Table of Contents

### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Except where we have otherwise indicated or the context otherwise requires, dollar amounts presented in this Form 10 K are in thousands, except for Exhibits and per share amounts.

#### Overview

Envestnet is a leading provider of intelligent systems for wealth management and financial wellness. Envestnet's unified technology enhances advisor productivity and strengthens the wealth management process. Envestnet empowers enterprises and advisors to more fully understand their clients and deliver better outcomes.

More than 3,500 companies, including 15 of the 20 largest U.S. banks, 43 of the 50 largest wealth management and brokerage firms, over 500 of the largest RIA, and hundreds of Internet services companies, leverage Envestnet technology and services. Envestnet solutions enhance knowledge of the client, accelerate client on-boarding, improve client digital experiences, and help drive better outcomes for enterprises, advisors and their clients.

Founded in 1999, Envestnet has been a leader in helping transform wealth management, working towards its goal of building a holistic financial wellness network that supports enterprises, advisors and their clients.

Through a combination of platform enhancements, partnerships and acquisitions, Envestnet uniquely provides a financial network connecting software, services and data, delivering better intelligence and enabling its customers to drive better outcomes.

We believe that our business model results in a high degree of recurring and predictable financial results.

#### Recent Developments

##### Acquisition of FolioDynamix

On January 2, 2018, Envestnet acquired ("the Acquisition") Folio Dynamics Holdings, Inc., a Delaware corporation ("FolioDynamix") through a merger of FolioDynamix with and into a wholly owned subsidiary of Envestnet. In connection with the Acquisition, Envestnet paid consideration of \$193,135 for FolioDynamix, subject to certain closing and post-closing adjustments. Envestnet funded the Acquisition with a combination of cash on the Company's balance sheet, purchase consideration liabilities and borrowings under its revolving credit facility.

FolioDynamix provides financial institutions, RIAs and other wealth management clients with an end-to-end technology solution paired with a suite of advisory tools including model portfolios, research and overlay management services. The acquisition of FolioDynamix added complementary trading tools as well as commission and brokerage support to Envestnet's existing suite of offerings. The Company expects to integrate the technology and operations of FolioDynamix into the Company's wealth management business, enabling the Company to further leverage its operating scale and data analytics capabilities. FolioDynamix is included in the Envestnet segment.

##### Investment in Private Company

On March 16, 2018, the Company purchased 4,000 units representing approximately 43% of the outstanding membership interests of a private company for cash consideration of \$1,333. The Company uses the consolidation method of accounting for this investment. The private company was formed to enable financial advisors to provide insurance and income protection products to their clients.

Private Offering of Convertible Notes due 2023

In May 2018, we issued \$345,000 of Convertible Notes maturing June 1, 2023 (the "2023 Notes"). Net proceeds from the offering were \$335,018. The 2023 Notes bear interest at a rate of 1.75% per annum payable semiannually in arrears on June 1 and December 1 of each year, beginning on December 1, 2018.

The 2023 Notes are general unsecured obligations, subordinated in right of payment to our obligations under our Credit Agreement. The 2023 Notes are convertible into shares of the Company's common stock under certain circumstances prior to maturity at a conversion rate of 14.6381 shares per \$1 principal amount of the 2023 Notes, which represents a

Table of Contents

conversion price of \$68.31 per share, subject to adjustment under certain conditions. For more information on the the 2023 Notes, see “Note 12 – Debt” in the notes to these consolidated financial statements in Part II, Item 8.

## Acquisition of Private Company

In August 2018, the Company acquired all of the issued and outstanding membership interests of a private technology company that provides market research analytics. In connection with the private company acquisition, the Company paid estimated net consideration of \$6,585, subject to certain closing and post-closing adjustments.

## Investment in Private Company

In November 2018, the Company acquired approximately 27% of the outstanding membership interests of a privately held company for cash consideration of \$1,200. In accordance with the agreement, the Company is required to make future capital contributions of \$1,200 and \$1,100 in 2019 and 2020, respectively, subject to certain conditions. The private company develops high-end financial planning software.

The Company uses the equity method of accounting to record its portion of this privately held company’s net income or loss on a one quarter lag from the actual results of operations. The Company uses the equity method of accounting because of its less than 50% ownership and lack of control and does not otherwise exercise control over the significant economic decisions of the company.

## Issuance and sale of Common Shares to BlackRock

On December 20, 2018, the Company issued and sold to BlackRock, Inc. ("BlackRock") approximately 2,356,000 common shares at a purchase price of \$52.13 per share, and warrants to purchase approximately 470,000 common shares at an exercise price of \$65.16 per share, subject to customary anti-dilution adjustments. The warrants are exercisable at BlackRock’s option for four years from the date of issuance. The warrants may be exercisable through cash exercise or net issue exercise with cash settlement at the sole discretion of the Company. The gross proceeds received of approximately \$122,788 were allocated to the common shares and the warrants and recorded within stockholders’ equity. In connection with this transaction, the Company incurred total transaction costs of approximately \$4,627 and recorded them as a reduction in equity.

## Key Metrics

Key metrics for 2018 include the addition of FolioDynamix, the metrics of which are shown below as of January 2, 2018, the date of acquisition.

FolioDynamix	Assets	Accounts	Advisors
AUM	\$8,736	57,163	
AUA	33,182	79,131	
Total AUM/A	41,918	136,294	3,838
Subscription	796,545	2,796,878	15,308
Total Platform	\$838,463	2,933,172	19,146

Additionally, beginning March 31, 2018 and for periods thereafter, subscription metrics include assets, accounts and advisors associated with Envestnet | Tamarac performance reporting, where applicable. Previously, Envestnet | Tamarac’s metrics were limited to those associated with its rebalancer solution. Prior period metrics have been conformed to the new definition in the table shown below.





Table of Contents

## Investnet Segment

The following table provides information regarding the amount of assets utilizing our platform technology, investor accounts and financial advisors in the periods indicated.

	As of December 31,		
	2018	2017	2016
	(in millions, except accounts and advisors data)		
<b>Platform Assets</b>			
AUM	\$ 150,591	\$ 141,518	\$ 105,178
AUA	291,934	308,480	241,682
Total AUM/A	442,525	449,998	346,860
Subscription	2,314,253	1,253,528	978,344
Total Platform Assets	\$ 2,756,778	\$ 1,703,526	\$ 1,325,204
<b>Platform Accounts</b>			
AUM	816,354	685,925	545,130
AUA	1,182,764	1,217,697	994,583
Total AUM/A	1,999,118	1,903,622	1,539,713
Subscription	8,865,435	5,054,015	4,596,984
Total Platform Accounts	10,864,553	6,957,637	6,136,697
<b>Advisors</b>			
AUM/A	40,103	40,485	36,483
Subscription	56,237	25,566	22,996
Total Advisors	96,340	66,051	59,479

The following table provides information regarding the degree to which gross sales, redemptions, net flows and changes in the market values of assets contributed to changes in AUM or AUA in the periods indicated.

	Asset Rollforward - 2018							
	As of 12/31/2017	FolioDynamix	Gross Sales	Redemptions	Net Flows	Market Impact	Reclass to Subscription	As of 12/31/2018
	(in millions, except account data)							
AUM	\$ 141,518	\$ 8,736	\$ 63,081	\$ (45,945 )	\$ 17,136	\$ (11,590)	\$ (5,209 )	\$ 150,591
AUA	308,480	33,182	141,037	(89,756 )	51,281	(21,183 )	(79,826 )	291,934
Total AUM/A	\$ 449,998	\$ 41,918	\$ 204,118	\$ (135,701 )	\$ 68,417	\$ (32,773)	\$ (85,035 )	\$ 442,525
Fee-Based Accounts	1,903,622	136,294			378,092		(418,890 )	1,999,118

The above AUM/A gross sales figures include \$60.5 billion in new client conversions. The Company onboarded an additional \$148.1 billion in subscription conversions during 2018, bringing total conversions for the year to \$208.6 billion.

	Asset Rollforward - 2017						
	As of 12/31/2016	Gross Sales	Redemptions	Net Flows	Market Impact	Reclass to Subscription	As of 12/31/2017
	(in millions, except account data)						
AUM	\$ 105,178	\$ 50,331	\$ (28,876 )	\$ 21,455	\$ 14,885	\$ —	\$ 141,518
AUA	241,682	121,653	(84,240 )	37,413	34,276	(4,891 )	308,480

Edgar Filing: ENVESTNET, INC. - Form 10-K

Total AUM/A	\$346,860	\$171,984	\$(113,116)	)	\$58,868	\$49,161	\$(4,891)	)	\$449,998
Fee-Based Accounts	1,539,713				386,673		(22,764)	)	1,903,622

## Table of Contents

The above AUM/A gross sales figures include \$49.6 billion in new client conversions. The Company onboarded an additional \$57.1 billion in subscription conversions during 2017, bringing total conversions for the year to \$106.7 billion.

Asset and account figures in the “Reclass to Subscription” columns above for the year ended December 31, 2018 represent enterprise customers whose billing arrangements in future periods are subscription-based. Such amounts are included in Subscription metrics at the end of the quarter in which the reclassification occurred, with no impact on total platform assets or accounts.

### Envestnet | Yodlee Segment

#### Paid Users

A paid user is defined as a user of an application or service provided to our customer using the Envestnet | Yodlee platform whose status corresponds to a billable activity under the associated customer contract. We believe that our ability to increase the number of paid users is an indicator of our market penetration, the growth of our business, and our potential future business opportunities.

Paid users were approximately 23.3 million, 22.4 million and 22.0 million as of December 31, 2018, 2017 and 2016, respectively. The increase was primarily driven by an increase in our number of customers as well as expansion of user base within certain existing customers.

#### Revenues

##### Overview

We earn revenues primarily under three pricing models. First, a majority of our revenues is derived from fees charged as a percentage of the assets that are managed or administered on our technology platforms by financial advisors. These revenues are recorded under asset-based revenues. Our asset based fees vary based on the types of investment solutions and services that financial advisors utilize. Asset based fees accounted for approximately 59%, 60% and 61% of our total revenues for the years ended December 31, 2018, 2017 and 2016, respectively. In future periods, the percentage of our total revenues attributable to asset based fees is expected to vary based on fluctuations in securities markets, whether we enter into significant subscription agreements, the mix of AUM or AUA, and other factors.

We generate revenues from recurring, contractual subscription fees for providing access to our technology platforms. This subscription revenue includes both contractual minimum payments and usage-based fees and is driven primarily by the number of customers, including new customers as well as customers who renew their existing subscription contracts, and the number of paid users. These revenues are recorded under subscription-based revenues. Subscription fees vary based on the scope of technology solutions and services being used, and are priced in a variety of constructs based on the size of the business, number of users or number of accounts and in many cases can increase over time based on the growth of these factors. Subscription fees accounted for 36%, 36% and 34% of our total revenues for the years ended December 31, 2018, 2017 and 2016, respectively.

We also generate revenues from fees received in connection with professional services and other revenue.

##### Asset-based recurring revenues

We generally charge our customers fees based on a higher percentage of the market value of AUM than the fees we charge on the market value of AUA, because we provide fiduciary oversight and/or act as the investment advisor in

connection with assets we categorize as AUM. The level of fees varies based on the nature of the investment solutions and services we provide, as well as the specific investment manager, fund and/or custodian chosen by the financial advisor. A portion of our revenues from assets under management or administration include costs paid by us to third parties for sub advisory, clearing, custody and brokerage services. These expenses are recorded under cost of revenues. We do not have fiduciary responsibility in connection with AUA and, therefore, generally charge lower fees on these assets. Our fees for AUA vary based on the nature of the investment solutions and services we provide.

For approximately 90% of our asset-based recurring revenues from assets under management or administration, we bill customers at the beginning of each quarter based on the market value of customer assets on our platforms as of the end of the prior quarter. For example, asset-based recurring revenues recognized during the fourth quarter of 2018 were primarily

## Table of Contents

based on the market value of assets as of September 30, 2018. Our asset-based recurring revenues are generally recognized ratably throughout the quarter based on the number of days in the quarter.

Our asset-based recurring revenues are affected by the amount of new assets that are added to existing and new client accounts, which we refer to as gross sales. Gross sales, from time to time, also include conversions of client assets to our technology platforms. The amounts of assets that are withdrawn from client accounts are referred to as redemptions. We refer to the difference between gross sales and redemptions as net flows. Positive net flows indicate that the market value of assets added to client accounts exceeds the market value of assets that have been withdrawn from client accounts.

Our asset-based revenues are also affected by changes in the market values of securities held in client accounts due to fluctuations in the securities markets. Certain types of securities have historically experienced greater market price fluctuations, such as equity securities, than other securities, such as fixed income securities, though in any given period the type of securities that experience the greatest fluctuations may vary.

### Subscription-based recurring revenues

Subscription-based recurring revenues are recognized ratably over the contracted term of each respective subscription agreement, commencing on the date the service is provisioned to the customer, provided all applicable revenue recognition criteria have been satisfied. As part of the subscription contracts, our customers generally commit to a minimum level of paid users from which a minimum level of non-refundable subscription revenue is derived. As paid users in excess of the guaranteed minimum level access the Envestnet | Yodlee platform, the customer is then required to pay additional usage fees calculated based upon a contracted per-paid-user fee. No refunds or credits are given if fewer paid users access the Envestnet | Yodlee platform than the contracted minimum level. Usage-based revenue is recognized as earned, provided all applicable revenue recognition criteria have been satisfied.

### Professional services and other revenues

To a lesser degree we also receive revenues from professional services fees by providing customers with certain technology platform software development and implementation services. These revenues are recognized when completed, under a proportional performance model utilizing an output based approach or on a straight line basis over the estimated life of the customer relationship. Our contracts generally have fixed prices, and generally specify or quantify interim deliverables.

### Expenses

The following is a description of our principal expense items:

#### Cost of revenues

Cost of revenues primarily includes expenses related to our receipt of sub advisory and clearing, custody and brokerage services from third parties. The largest component of cost of revenues is paid to third party investment managers. Clearing, custody and brokerage services are performed by third party providers. These expenses are typically calculated based upon a contractual percentage of the market value of assets held in customer accounts measured as of the end of each fiscal quarter and are recognized ratably throughout the quarter based on the number of days in the quarter. Also included in cost of revenues are vendor specific expenses related to the direct support of revenues associated with the Envestnet | Yodlee products.

#### Compensation and benefits

Compensation and benefits expenses primarily relate to employee compensation, including salaries, short-term incentive compensation, non-cash stock based compensation, incentive compensation, benefits and employer related taxes.

#### General and administration

General and administration expenses include occupancy costs and expenses relating to communications services, research and data services, website and system development, marketing, professional and legal services, travel and entertainment and acquisition/transaction related expenses.

## Table of Contents

### Depreciation and amortization

Depreciation and amortization expenses include depreciation and amortization related to:

- fixed assets, including computer equipment and software, leasehold improvements, office furniture and fixtures and other office equipment;

- internally developed software; and

- intangible assets, primarily related to customer lists, backlog, proprietary technology and trade names, the value of which are capitalized in connection with our acquisitions.

Furniture and equipment are depreciated using the straight line method based on the estimated useful lives of the depreciable assets. Leasehold improvements are amortized using the straight line method over their estimated economic useful lives or the remaining lease term, whichever is shorter. Improvements are capitalized, while repairs and maintenance costs are recorded as expenses in the period they are incurred. Assets are tested for recoverability whenever events or circumstances indicate that the carrying value of the assets may not be recoverable.

Internally developed software is amortized on a straight line basis over its estimated useful life. We evaluate the useful lives of these assets on an annual basis and test for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets.

Intangible assets are depreciated using an accelerated or straight line basis over their estimated economic useful lives and are reviewed for possible impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets.

### Interest expense

Interest expense includes coupon interest, discount amortization and issuance cost amortization related to the Convertible Notes as well as amortization of upfront fees and monthly fees related to the Second Amended and Restated Credit Agreement. The discount, issuance costs and upfront fees are amortized over the term of the related agreements.

### Other expense, net

Other expense, net includes foreign exchange gains or losses and gain or loss on foreign currency forward contracts as well as other miscellaneous revenue or expense items as appropriate.

### Critical Accounting Policies

Our consolidated financial statements are prepared in conformity with accounting principles GAAP. The accounting policies described below require management to apply significant judgment in connection with the preparation of our consolidated financial statements. In particular, judgment is applied to determine the appropriate assumptions to be used in calculating estimates that affect certain reported amounts in our consolidated financial statements. These estimates and assumptions are based on historical experience and on various other factors that we believe to be reasonable under the circumstances. If different estimates or assumptions were used, our results of operations, financial condition and cash flows could have been materially different than those reflected in our consolidated financial statements. For additional information regarding our critical accounting policies, see “Note 2 – Summary of Significant Accounting Policies” to the consolidated financial statements in Part II, Item 8.



## Revenue Recognition

The Company derives revenues from asset-based and subscription-based services and professional services and other sources. Revenues are recognized when control of these services is transferred to our customers, in an amount that reflects the consideration that we expect to be entitled to in exchange for those services. All revenue recognized in the consolidated statements of operations is considered to be revenue from contracts with customers. Sales and usage-based taxes are excluded from revenues.

Asset-based recurring revenues— Asset-based recurring revenues primarily consist of fees for providing customers continuous access to platform services through the Company's uniquely customized platforms. These platform services include

## Table of Contents

investment manager research, portfolio diagnostics, proposal generation, investment model management, rebalancing and trading, portfolio performance reporting and monitoring solutions, billing and back office and middle-office operations and administration and are made available to customers throughout the contractual term from the date the customized platform is launched.

The asset-based fees the Company earns are generally based upon variable percentages of assets managed or administered on our platforms. The fee percentage varies based on the level and type of services the Company provides to its customers, as well as the values of existing customer accounts. The values of the customer accounts are affected by inflows or outflows of customer funds and market fluctuations.

The platform services are substantially the same over each quarter and performed in a similar manner over the contract period, and are considered stand-ready promises. The platform services that are delivered to the customer over the quarter are considered distinct, as the customer benefits distinctly from each increment of our services and each quarter is separately identified in the contract, and are considered to be a single performance obligation under the new revenue standard.

The pricing generally resets each quarter and the pricing structure is consistent throughout the term of the contract. The variable fees are generally calculated and billed quarterly in advance based on preceding quarter-end values and the variable amounts earned from the platform services relate specifically to the benefits transferred to the customer during that quarter. Accordingly, revenue is allocated to the specific quarter in which services are performed.

The asset-based contracts generally contain one performance obligation and revenue is recognized on a ratable basis over the quarter beginning on the date that the platform services are made available to the customer as the customer simultaneously consumes and receives the benefits of the services. All asset-based fees are recognized in the Envestnet segment.

For certain services provided by third parties, the Company evaluates whether it is the principal (revenues reported on a gross basis) or agent (revenues reported on a net basis). Generally, the Company reports customer fees including charges for third party service providers where the Company has a direct contract with such third party service providers on a gross basis, whereas the amounts billed to its customers are recorded as revenues, and amounts paid to third party service providers are recorded as cost of revenues. The Company is the principal in the transaction because it controls the services before they are transferred to its customers. Control is evidenced by the Company being primarily responsible to its customers and having discretion in establishing pricing.

Subscription-based recurring revenues— Subscription-based recurring revenues primarily consist of fees for providing customers continuous access to the Company's platform for wealth management and financial wellness. The subscription-based fees generally include fixed fees and or usage-based fees.

Generally, the subscription services are substantially the same over each quarter and performed in a similar manner over the contract period, and are considered stand-ready promises. Quarterly subscription services are considered distinct as the customer can benefit from each increment of services on its own and each quarter is separately identified in the contract, and services are considered to be a single performance obligation under the new revenue standard.

The usage-based pricing generally resets each quarter and the pricing structure is generally consistent throughout the term of the contract. The fixed fees are generally calculated and billed quarterly in advance. The usage-based fees are generally calculated and are billed either monthly or quarterly based on the actual usage and relate specifically to the benefits transferred to the customer during that quarter. Accordingly, revenue is allocated to the specific quarter in which services are performed.

Certain subscription-based contracts contain multiple performance obligations (i.e. platform services performance obligation and professional services performance obligation). Fixed fees are generally recognized on a ratable basis over the quarter beginning when the subscription services are made available to the customer, as the customer simultaneously receives and consumes the benefits of the subscription services. Usage-based revenue is recognized on a monthly basis as the customer receives and consumes the benefit as the Company provides the services. Subscription-based fees are recognized in both the Envestnet and Envestnet | Yodlee segments.

Professional services and other revenues— The Company earns professional services fees by providing contractual customized services and platform software development as well as initial implementation fees. Professional services contracts generally have fixed prices, and generally specify the deliverables in the contract. Certain professional services contracts are billed on a time and materials basis and revenue is recognized over time as the services are performed. For contracts billed on a

## Table of Contents

fixed price basis, revenue is recognized over time based on the proportion of services performed. Initial implementation fees are fixed and recognized ratably over the contract term.

Other revenue primarily includes revenue related to the Advisor Summit. Other revenue is recognized when the events are held. Other revenue is not significant.

The majority of the professional services and other contracts contain one performance obligation. Professional services and other revenues are recognized in both the Envestnet and Envestnet | Yodlee segments.

Arrangements with multiple performance obligations— Certain of the Company's contracts with customers contain multiple performance obligations such as platform services performance obligation and professional services performance obligation. For such arrangements, the Company allocates revenue to each performance obligation based on its relative standalone selling price. Standalone selling prices of services are estimated based on observable transactions when these services are sold on a standalone basis or based on expected cost plus margin.

Contract Balances— The Company records contract liabilities (deferred revenue) when cash payments are received in advance of its performance. The term between invoicing date and when payment is due is generally not significant. For the majority of its arrangements, the Company requires advance quarterly payments before the services are delivered to the customer.

Deferred Revenue— Deferred revenue primarily consists of implementation fees, professional services and subscription fee payments received in advance from customers.

Deferred sales incentive compensation—Sales incentive compensation earned by the Company's sales force is considered an incremental and recoverable cost to acquire a contract with a customer. Sales incentive compensation for initial contracts is deferred and amortized on a straight-line basis over the period of benefit, which the Company has determined to be five years. The Company determined the period of benefit by taking into consideration its customer contracts, life of the technology and other factors. Sales incentive compensation for renewal contracts are deferred and amortized on a straight-line basis over the related contractual renewal period. Deferred sales incentive compensation is included in other non-current assets on the consolidated balance sheet and amortization expense is included in compensation and benefits expenses on the consolidated statements of operations.

## Purchase accounting

Assigning fair market values to the assets acquired and liabilities assumed at the date of an acquisition requires knowledge of current market values, and the values of assets in use, and often requires the application of judgment regarding estimates and assumptions. While the ultimate responsibility resides with management, for material acquisitions, we retain the services of certified valuation specialists to assist with assigning estimated values to certain acquired assets and assumed liabilities, including intangible assets and contingent consideration.

Acquired intangible assets, excluding goodwill, are valued using a discounted cash flow methodology based on future cash flows specific to the type of intangible asset purchased. This methodology incorporates various estimates and assumptions, the most significant being projected revenue growth rates, margins and forecasted cash flows based on the discount rate and terminal growth rate. Management projects revenue growth rates, margins and cash flows based on the historical operating results of the acquired entity adjusted for synergies anticipated to be achieved through integration, expected future performance, operational strategies and the general macroeconomic environment. We review finite lived intangible assets for triggering events such as significant changes in operations, customers or future revenue that might indicate the need to impair the assets acquired or change the useful lives of the assets acquired. There was no impairment recognized on intangible assets in 2018, 2017 or 2016.

Assumed liabilities are valued based on estimates of anticipated expenditures to be incurred to satisfy the assumed obligations, including contractual liabilities assumed, which require the exercise of professional judgment.

Assumed contracts may have favorable or unfavorable terms that must be valued as of the acquisition date. Such valuation is subject to management judgment regarding the evaluation and interpretation of contract terms in relation to other economic circumstances, such as the market rates for office space leases.

## Table of Contents

If we assume a performance obligation to customers as of the acquisition date, a deferred revenue obligation is recognized. Judgment is required to evaluate whether a future performance obligation exists and to assign a value to the performance obligation.

Assumed acquired tax liabilities for uncertain tax positions are dependent on assessing the past practices of the acquisition target based on our review of actual tax filings and information obtained through due diligence procedures. Evaluation of the validity of tax positions taken by the acquisition target are subject to management judgment.

The Company determines the fair value of contingent acquisition consideration payable on the acquisition date using a discounted cash flow approach utilizing an appropriate discount rate. Each reporting period thereafter, the Company revalues these obligations and records increases or decreases in their fair value as adjustments to fair market value adjustment on contingent consideration in the Company's consolidated statements of operations. Changes in the fair value of the contingent acquisition consideration payable can result from adjustments to the estimated revenue forecasts included in the contingent payment calculations.

### Reviews for impairment of goodwill and acquired intangible assets

Goodwill is tested for impairment at the reporting unit level on an annual basis and more often if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Based on the relevant GAAP authoritative guidance, we aggregate components of a single operating segment into a reporting unit, if appropriate. For purposes of performing the impairment tests, we identify reporting units in accordance with GAAP. The identification of reporting units and consideration of aggregation criteria requires management judgment.

If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired and no further testing is performed. If the carrying value of the reporting unit exceeds its fair value, then a quantitative evaluation must be performed. If the carrying value of a reporting unit's goodwill exceeds its fair value, then an impairment loss equal to the difference will be recorded. In accordance with applicable accounting guidance, prior to performing the quantitative evaluation, an assessment of qualitative factors may be performed to determine whether it is more likely than not that the fair value of a reporting unit exceeds the carrying value. If it is determined that it is unlikely that the carrying value exceeds the fair value, the Company is not required to complete the quantitative goodwill impairment evaluation. The selection and assessment of qualitative factors used to determine whether it is more likely than not that the fair value of a reporting unit exceeds the carrying value involves management judgment.

Investnet completed its annual goodwill impairment test as of October 31, 2018 for the fiscal year ended December 31, 2018. At that date, Investnet determined it was appropriate to aggregate certain components of the same operating segment into a single reporting unit. The Company has concluded that it has two reporting units. Investnet also determined that it was more likely than not that the fair value of its reporting units exceeded the carrying value and concluded that goodwill was not impaired. As a result, the Company did not perform the quantitative goodwill impairment evaluation.

As part of the Company's ongoing monitoring efforts to assess goodwill for possible indications of impairment, we will continue to consider a wide variety of factors, including but not limited to the global economic environment and its potential impact on Investnet's business. There can be no assurance that our estimates and assumptions regarding forecasted cash flows of certain reporting units, the current economic environment, or the other inputs used in forecasting the present value of forecasted cash flows will prove to be accurate projections of future performance.

Intangible assets are reviewed for impairment whenever events or changes in circumstances may affect the recoverability of the net assets. Such reviews include an analysis of current results and take into consideration the

undiscounted value of projected operating cash flows. No impairment charges have been recorded for the years ended December 31, 2018, 2017 and 2016.

#### Income taxes

We are subject to income taxes in the United States, Australia, Canada, India, and the United Kingdom. Significant judgment is required in evaluating our tax positions and determining our provision for income taxes.

We use the asset and liability method to account for income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and for net operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are

## Table of Contents

expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the Company's income tax provision in the period that includes the enactment date. We record a valuation allowance to reduce deferred tax assets to an amount that we determine is more-likely-than-not to be realized in the future.

In our ordinary course of business, we may enter into transactions for which the ultimate tax determination is uncertain. In such cases, we establish reserves for tax-related uncertainties based on our estimates of whether, and the extent to which, additional taxes will be due. The reserves are established when we believe that certain positions are likely to be challenged and may not be fully sustained on review by tax authorities. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit or refinement of an estimate. Although we believe our reserves are reasonable, no assurance can be given that the final outcome of these matters will not be different from that which is reflected in our historical income tax provisions and accruals. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will be reflected in our provision for income taxes. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate.

The amount of income tax we pay is subject to audits by federal, state and foreign tax authorities, which may result in proposed assessments. Our estimate of the potential outcome for any uncertain tax issue is highly judgmental. We believe that we have adequately provided for the foreseeable outcome related to these matters. However, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are made or resolved, audits are closed or when statutes of limitations on potential assessments expire. Additionally, the jurisdictions in which our earnings or deductions are realized may differ from our current estimates. As a result, our effective tax rate may fluctuate significantly on a quarterly basis.

Significant judgment is also required in determining any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, we consider all available evidence, including past operating results, estimates of future taxable income and the feasibility of tax planning strategies. In the event that we change our determination as to the amount of deferred tax assets that can be realized, we will adjust our valuation allowance with a corresponding impact to the provision for income taxes in the period in which such determination is made. As a result of the net deferred tax liability position of the January 2018 acquisition of FolioDynamix, the Company released a portion of its valuation allowance during the first quarter of 2018.

Our effective tax rates differ from the statutory rates primarily due to the effect of state taxes, foreign taxes, prior period true-ups, indefinite-lived intangibles, the Base Erosion Anti-Abuse Tax ("BEAT") and release of a portion of the valuation allowance due to the FolioDynamix acquisition. Our provision for income taxes varies based on, among other things, changes in the valuation of our deferred tax assets and liabilities, the tax effects of non-cash stock-based compensation or changes in applicable tax laws, regulations and accounting principles or interpretations thereof.

We are subject to examination of our income tax returns by the U.S. Internal Revenue Service and other tax authorities. We assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these examinations will not have a material adverse effect on our results of operations, financial condition and cash flows.

Our Indian subsidiaries are currently under examination by the India Tax Authority for the fiscal years ended March 31, 2005, 2008, 2011, 2012, 2013, 2014, 2015, 2016 and 2017 and during the current year one of the India subsidiaries had four years worth of audits with the Indian tax authorities close. Based on the outcome of examinations of our subsidiary or the result of the expiration of statutes of limitations it is reasonably possible that the related unrecognized tax benefits could change from those recorded in the consolidated balance sheet. It is possible that one or more of these audits may be finalized within the next twelve months.





Table of Contents

## Results of Operations

	Year Ended December 31,						
	2018	2017	% Change		2016	% Change	
	(in thousands, except for percentages)						
Revenues:							
Asset-based	\$481,233	\$410,016	17	%	\$352,498	16	%
Subscription-based	295,467	245,867	20	%	198,125	24	%
Total recurring revenues	776,700	655,883	18	%	550,623	19	%
Professional services and other revenues	35,663	27,796	28	%	27,541	1	%
Total revenues	812,363	683,679	19	%	578,164	18	%
Operating expenses:							
Cost of revenues	263,400	219,037	20	%	180,590	21	%
Compensation and benefits	317,188	264,392	20	%	241,584	9	%
General and administration	139,984	121,010	16	%	115,435	5	%
Depreciation and amortization	77,626	62,820	24	%	63,999	(2)	%
Total operating expenses	798,198	667,259	20	%	601,608	11	%
Income (loss) from operations	14,165	16,420	(14)	%	(23,444)	(170)	%
Other income (expense):							
Interest income	2,363	201	*		37	*	
Interest expense	(25,203)	(16,347)	54	%	(16,600)	(2)	%
Other expense, net	(487)	(1,963)	(75)	%	(483)	*	
Total other expense, net	(23,327)	(18,109)	29	%	(17,046)	6	%
Loss before income tax provision (benefit)	(9,162)	(1,689)	*		(40,490)	(96)	%
Income tax provision (benefit)	(13,172)	1,591	*		15,077	(89)	%
Net income (loss)	4,010	(3,280)	*		(55,567)	(94)	%
Add: Net loss attributable to non-controlling interest	1,745	—	*		—	*	
Net income (loss) attributable to Envestnet, Inc.	\$5,755	\$(3,280)	*		\$(55,567)	(94)	%

\*Not meaningful

Year ended December 31, 2018 compared to year ended December 31, 2017

## Revenues

Total revenues increased 19% from \$683,679 in 2017 to \$812,363 in 2018. The increase was primarily due to an increase in revenues from asset-based recurring and subscription-based recurring revenues of \$71,217 and \$49,600, respectively. Asset-based recurring revenue was 59% and 60% of total revenues in 2018 and 2017, respectively.

## Asset-based recurring revenues

Asset-based recurring revenues increased 17% from \$410,016 to \$481,233 in 2018. The increase was primarily due to the 2018 acquisition of FolioDynamix which comprised of \$49,691 of the increase as well as an increase in asset values applicable to our quarterly billing cycle in 2018, relative to the corresponding period in 2017.

The number of financial advisors with asset-based recurring revenue on our technology platforms decreased from 40,485 as of December 31, 2017 to 40,103 as of December 31, 2018 and the number of AUM or AUA client accounts increased from approximately 1,900,000 as of December 31, 2017 to approximately 2,000,000 as of December 31, 2018.



## Table of Contents

### Subscription-based recurring revenues

Subscription-based recurring revenues increased 20% from \$245,867 in 2017 to \$295,467 in 2018. This increase was primarily due to the 2018 acquisition of FolioDynamix which comprised \$17,890 of the \$32,324 Investnet segment increase and Investnet | Yodlee contributed an additional \$17,276. The increase in Investnet segment revenue is a result of continuing to add clients and selling additional services to existing clients. The increase in Investnet | Yodlee revenue is primarily due to a broad increase in revenue from existing customers.

### Professional services and other revenues

Professional services and other revenues increased 28% from \$27,796 to \$35,663 in 2018. This increase was primarily due to timing of new data analytics customer deployments and upgrades of existing data analytics customers in Investnet | Yodlee segment.

### Cost of revenues

Cost of revenues increased 20% from \$219,037 to \$263,400 in 2018, primarily due to the corresponding increase in asset-based recurring revenues, the mix of such revenues, which is partially attributable to FolioDynamix, and an increase in cost of revenues associated with subscription-based recurring revenues. As a percentage of total revenues, cost of revenues remained consistent at 32% in 2018 and 2017.

### Compensation and benefits

Compensation and benefits increased 20% from \$264,392 to \$317,188 in 2018, primarily due to an increase in salaries, benefits and related payroll taxes of \$30,571, primarily as a result of the 2018 acquisition of FolioDynamix as well as an increase in headcount to support organic growth. Also contributing to growth in compensation and benefits were increases in non-cash compensation of \$8,913, severance expense of \$6,002, third party contract labor of \$4,226 and incentive compensation of \$4,021. As a percentage of total revenues, compensation and benefits remained consistent at 39% in 2018 and 2017.

### General and administration

General and administration expenses increased 16% from \$121,010 to \$139,984 in 2018, primarily due to increase in systems costs of \$6,695, external data and research services of \$5,198, occupancy costs of \$2,496, professional and legal fees of \$2,068 and various other immaterial net activity. As a percentage of total revenues, general and administration expenses decreased from 18% to 17% in 2017 and 2018, respectively.

### Depreciation and amortization

Depreciation and amortization expense increased 24% from \$62,820 to \$77,626 in 2018, primarily due to an increase in intangible asset amortization of \$11,729, mainly attributable to the 2018 acquisition of FolioDynamix and amortization of internally software of \$2,739 driven by continued investment in our platforms. As a percentage of total revenues, depreciation and amortization expense increased from 9% to 10% in 2017 and 2018, respectively.

### Interest expense

Interest expense increased 54% from \$16,347 in 2017 to \$25,203 in 2018, primarily due to the issuance of the 2023 Convertible Notes in May 2018. Interest expense includes coupon interest, discount amortization and issuance cost amortization related to the Convertible Notes, as well as interest and amortization of upfront fees and monthly fees

related to the Second Amended and Restated Credit Agreement. The discount, issuance costs and upfront fees are amortized over the term of the related agreements. As a percentage of total revenues, interest expense increased from 2% at 3% in 2017 and 2018, respectively.

Interest income

Interest income increased from \$201 in 2017 to \$2,363 in 2018, primarily due to the interest earned from an increase in cash on hand.

Table of Contents

## Income tax provision (benefit)

	Year Ended	
	December 31,	
	2018	2017
Loss before income tax provision (benefit)	\$(9,162)	\$(1,689)
Income tax provision (benefit)	(13,172)	1,591
Effective tax rate	143.8 %	(94.2 )%

Our 2018 effective tax rate differs from the statutory rate primarily due to the effect of state taxes, foreign taxes, prior period true-up, indefinite-lived intangibles, BEAT and release of a portion of the valuation allowance in connection with the 2018 FolioDynamix acquisition.

Our 2017 effective tax rate differs from the statutory rate primarily due to the effect of state taxes, AMT Credit conversion to a receivable, foreign tax expense, change in foreign unremitted earnings assertion, indefinite-lived intangibles, changes in valuation allowance on our domestic temporary differences and tax reform.

Year ended December 31, 2017 compared to year ended December 31, 2016

## Revenues

Total revenues increased 18% from \$578,164 in 2016 to \$683,679 in 2017. The increase was primarily due to an increase in asset values applicable to our quarterly billing cycles in 2017, relative to the corresponding period in 2016 and an increase in subscription-based recurring revenues of \$47,742, of which \$26,034 was related to the Envestnet | Yodlee segment primarily attributable to our data analytics and FI and YI channels. Revenues from assets under management or administration comprised 60% and 61% of total revenues in 2017 and 2016, respectively.

## Asset-based recurring revenues

Asset-based recurring revenues increased 16% from \$352,498 in 2016 to \$410,016 in 2017. The increase was primarily due to an increase in asset values applicable to our quarterly billing cycles in 2017, relative to the corresponding period in 2016. In 2017, revenues were further positively affected by new account growth, market appreciation and positive net flows of AUM or AUA during 2016 and 2017, partially offset by a lower overall effective fee rate on AUM/A.

The number of financial advisors with AUM or AUA on our technology platforms increased from 36,483 as of December 31, 2016 to 40,485 as of December 31, 2017 and the number of AUM or AUA client accounts increased from approximately 1,540,000 as of December 31, 2016 to approximately 1,900,000 as of December 31, 2017.

## Subscription-based recurring revenues

Subscription-based recurring revenues increased 24% from \$198,125 in 2016 to \$245,867 in 2017. This increase was primarily due to an increase in Envestnet | Yodlee contributing an additional \$26,034, Envestnet | Tamarac related revenue of \$12,212 and Envestnet | Enterprise revenue of \$9,496. The increase in the Envestnet | Yodlee segments was primarily attributable to our data analytics and FI and YI channels. The Envestnet | Tamarac revenue increase resulted from the continued addition of new clients and selling additional services to existing clients. The Envestnet | Enterprise revenue increase was primarily attributable to a significant client which attributed revenue for an entire year during 2017 as compared to a portion of 2016.

Professional services and other revenues

Professional services and other revenues increased 1% from \$27,541 in 2016 to \$27,796 in 2017. This was primarily due to relatively consistent year over year implementation fees and data analytics customer deployments.

Cost of revenues

Cost of revenues increased 21% from \$180,590 in 2016 to \$219,037 in 2017, primarily due to the corresponding increase in revenues from AUM or AUA. As a percentage of total revenues, cost of revenues increased from 31% in 2016 to 32% in 2017. The increase in cost of revenues as a percentage of total revenue is primarily a result of the an increase in third

## Table of Contents

party consulting and professional services for new data analytics customer deployments and hosting and payment processing services.

### Compensation and benefits

Compensation and benefits increased 9% from \$241,584 in 2016 to \$264,392 in 2017, primarily due to an increase in salaries, benefits and related payroll taxes of \$21,764 related to an increase in headcount, and increases in incentive compensation of \$3,610 and short-term variable compensation of \$1,553, partially offset by decreases in severance expense of \$2,025 and non-cash compensation expense of \$1,944. Headcount increased from an average of 2,900 in 2016 to an average of 3,000 in 2017, primarily as a result of an increase in headcount to support the organic growth of our operations. As a percentage of total revenues, compensation and benefits decreased from 42% in 2016 to 39% in 2017. The decrease in compensation and benefits as a percentage of total revenues is primarily due to a higher revenue increase compared to a lower compensation and benefit increase.

### General and administration

General and administration expenses increased 5% from \$115,435 in 2016 to \$121,010 in 2017, primarily due to increases in transaction related costs of \$7,882, occupancy costs of \$3,901, professional and legal fees of \$2,016, marketing costs of \$1,623 and travel and entertainment expense of \$1,264, partially offset by decreases in non-income tax expense of \$5,883, litigation expense of \$4,558 and fair market value adjustment on contingent consideration of \$1,588. As a percentage of total revenues, general and administration expenses decreased from 20% in 2016 to 18% in 2017. The decrease in general and administration as a percentage of total revenues is primarily due to a higher revenue increase compared to a lower general and administration increase.

### Depreciation and amortization

Depreciation and amortization expense decreased 2% from \$63,999 in 2016 to \$62,820 in 2017, primarily due to a decrease in intangible asset amortization of \$3,388 due to a significant portion of the intangible assets being amortized using an accelerated expense method throughout the assets' useful lives and the majority of such assets being acquired prior to 2017 (see "Note 3 – Business Acquisitions" to the notes to consolidated financial statements in Part II, Item 8). The decrease in depreciation and amortization was partially offset by an increase in amortization and depreciation on internally developed software and property and equipment, primarily due to an increase in capital expenditures. As a percentage of total revenues, depreciation and amortization decreased from 11% in 2016 to 9% in 2017, primarily as a result of a decrease in Envestnet | Yodlee intangible asset amortization.

### Interest expense

Interest expense remained consistent from \$16,600 in 2016 to \$16,347 in 2017. Interest expense includes coupon interest, discount amortization, and issuance cost amortization related to the Convertible Notes as well as interest and amortization of upfront fees and monthly fees related to the Second Amended and Restated Credit Agreement. The discount, issuance costs, and upfront fees are amortized over the term of the related agreements.

### Other expense, net

Other expense, net increased from \$483 in 2016 to \$1,963 in 2017, primarily due to a one-time 2016 gain related to a customer settlement of \$1,384 as well as comparatively favorable foreign currency impacts of \$532, partially offset by a decrease in losses and impairments booked on investments in private companies of \$685.

### Income tax provision



	Year Ended December	
	31,	
	2017	2016
Loss before income tax provision	\$(1,689)	\$(40,490)
Income tax provision	1,591	15,077
Effective tax rate	(94.2 )%	(37.2 )%

Table of Contents

Our 2017 effective tax rate differs from the statutory rate primarily due to the effect of state taxes, AMT Credit conversion to a receivable, foreign tax expense, change in foreign unremitted earnings assertion, indefinite-lived intangibles, changes in valuation allowance on our domestic temporary differences and tax reform.

Our 2016 effective tax rate differs from the statutory rate primarily due to the effect of state taxes, foreign tax expense, unremitted foreign earnings true-up, indefinite-lived intangibles and changes in valuation allowance on our domestic temporary differences.

## Business Segments

The Company has two segments as described below:

Investnet – a leading provider of unified wealth management software and services to empower financial advisors and institutions.

Investnet | Yodlee – a leading data aggregation and data analytics platform powering dynamic, cloud-based innovation for digital financial services.

The following table reconciles income from operations by segment to consolidated net income (loss) attributable to Investnet, Inc.:

	Year Ended December 31,		
	2018	2017	2016
Investnet	\$75,491	\$75,449	\$41,678
Investnet   Yodlee	(10,013 )	(19,456 )	(38,547 )
Total segment income from operations	65,478	55,993	3,131
Nonsegment operating expenses	(51,313 )	(39,573 )	(26,575 )
Interest expense, net	(22,840 )	(16,146 )	(16,563 )
Other expense, net	(487 )	(1,963 )	(483 )
Consolidated loss before income tax provision (benefit)	(9,162 )	(1,689 )	(40,490 )
Income tax provision (benefit)	(13,172 )	1,591	15,077
Consolidated net income (loss)	4,010	(3,280 )	(55,567 )
Add: Net loss attributable to non-controlling interest	1,745	—	—
Consolidated net income (loss) attributable to Investnet, Inc.	\$5,755	\$(3,280 )	\$(55,567)

Table of Contents

## Envestnet

The following table presents income from operations for the Envestnet segment:

	Year Ended December 31,					
	2018	2017	% Change	2016	% Change	
	(in thousands, except for percentages)					
Revenues:						
Asset-based	\$481,233	\$410,016	17 %	\$352,498	16 %	
Subscription-based	138,372	106,048	30 %	84,340	26 %	
Total recurring revenues	619,605	516,064	20 %	436,838	18 %	
Professional services and other revenues	13,000	11,841	10 %	10,794	10 %	
Total revenues	632,605	527,905	20 %	447,632	18 %	
Operating expenses:						
Cost of revenues	244,658	205,793	19 %	169,732	21 %	
Compensation and benefits	191,893	157,237	22 %	144,388	9 %	
General and administration	75,424	63,203	19 %	67,050	(6 )%	
Depreciation and amortization	45,139	26,223	72 %	24,784	6 %	
Total operating expenses	557,114	452,456	23 %	405,954	11 %	
Income from operations	\$75,491	\$75,449	— %	\$41,678	81 %	

Year ended December 31, 2018 compared to year ended December 31, 2017 for the Envestnet segment

## Revenues

## Asset-based recurring revenues

Asset-based recurring revenues increased 17% from \$410,016 to \$481,233 in 2018. The increase was primarily due to the 2018 acquisition of FolioDynamix which comprised of \$49,691 of the increase as well as an increase in asset values applicable to our quarterly billing cycle in 2018, relative to the corresponding periods in 2017.

The number of financial advisors with AUM or AUA on our technology platforms decreased from 40,485 as of December 31, 2017 to 40,103 as of December 31, 2018 and the number of AUM or AUA client accounts increased from approximately 1,900,000 as of December 31, 2017 to approximately 2,000,000 as of December 31, 2018.

## Subscription-based recurring revenues

Subscription-base recurring revenues increased 30% from \$106,048 to \$138,372 in 2018. This increase was primarily due to the 2018 acquisition of FolioDynamix which comprised \$17,890 of the \$32,324 Envestnet segment increase as well as continuing to add clients and selling additional services to existing clients.

## Professional services and other revenues

Professional services and other revenues increased 10% from \$11,841 to \$13,000 in 2018, primarily due to increased implementation revenue from the onboarding of new clients.

## Cost of revenues

The cost of revenues increased 19% from \$205,793 to \$244,658 in 2018, primarily due to the corresponding increase in asset-based recurring revenues, the mix of such revenues, which is partially attributable to the 2018 acquisition of FolioDynamix and Advisor Summit related costs. As a percentage of total revenues, cost of revenues remained consistent at 39% in 2017 and 2018.

## Table of Contents

### Compensation and benefits

Compensation and benefits increased 22% from \$157,237 to \$191,893 in 2018, primarily due to an increase in salaries, benefits and related payroll taxes of \$20,282, primarily a result of the 2018 acquisition of FolioDynamix as well as an increase in headcount to support organic growth. Also contributing to growth in compensation and benefits were increases in severance expense of \$5,855, stock-based compensation expense of \$4,150, third party contract labor of \$3,526 and other immaterial activity. As a percentage of total revenues, compensation and benefits remained consistent at 30% in 2017 and 2018.

### General and administration

General and administration expenses increased 19% from \$63,203 to \$75,424 in 2018, primarily due to increases in external data and research services of \$4,911, systems costs of \$2,992, occupancy costs of \$1,925, non-recurring related expenses of \$1,222 and other immaterial activity. As a percentage of total revenues, general and administration expenses remained consistent at 12% in 2017 and 2018.

### Depreciation and amortization

Depreciation and amortization increased 72% from \$26,223 to \$45,139 in 2018, primarily due to increases in intangible asset amortization of \$16,282, primarily attributable to the 2018 acquisition of FolioDynamix, and amortization of internally developed software of \$2,739 driven by continued investment in our platforms. As a percentage of total revenues, depreciation and amortization expense increased from 5% to 7% in 2017 and 2018, respectively.

Year ended December 31, 2017 compared to year ended December 31, 2016 for the Envestnet segment

### Revenues

#### Asset-based recurring revenues

Asset-based recurring revenues increased 16% from \$352,498 in 2016 to \$410,016 in 2017. The increase was primarily due to an increase in asset values applicable to our quarterly billing cycles in 2017, relative to the corresponding period in 2016. In 2017, revenues were further positively affected by new account growth, market appreciation and positive net flows of AUM or AUA during 2016 and 2017, partially offset by a lower overall effective fee rate on AUM/A.

The number of financial advisors with AUM or AUA on our technology platforms increased from 36,483 as of December 31, 2016 to 40,485 as of December 31, 2017 and the number of AUM or AUA client accounts increased from approximately 1,540,000 as of December 31, 2016 to approximately 1,900,000 as of December 31, 2017.

#### Subscription-based recurring revenues

Subscription-based recurring revenues increased 26% from \$84,340 in 2016 to \$106,048 in 2017. This increase was primarily due to an increase in Envestnet | Tamarac and Envestnet | Enterprise related revenue of \$12,212 and \$9,496, respectively. The Envestnet | Tamarac and Envestnet | Enterprise revenue increase resulted from the continued addition of new clients and selling additional services to existing clients.

#### Professional services and other revenues

Professional services and other revenues increased 10% from \$10,794 in 2016 to \$11,841 in 2017. This increase was primarily due to an increase in Envestnet | Tamarac and Envestnet | Enterprise related revenue of \$640 and \$400, respectively. The increase in Envestnet | Tamarac professional service revenue was a result of an increase in implementation revenue from the onboarding of new clients. The Envestnet | Enterprise revenue was primarily due to an increase in Advisor Summit related revenue.

#### Cost of revenues

Cost of revenues increased 21% from \$169,732 in 2016 to \$205,793 in 2017, primarily due to the corresponding increase in revenues from AUM or AUA, and the mix of such revenues. As a percentage of total revenues, cost of revenues increased from 38% in 2016 to 39% in 2017.

Table of Contents

## Compensation and benefits

Compensation and benefits increased 9% from \$144,388 in 2016 to \$157,237 in 2017, primarily due to an increase in salaries, benefits and related payroll taxes of \$8,765 related to an increase in headcount, an increase in non-cash compensation expense of \$2,472 and an increase in incentive compensation expense of \$1,784. As a percentage of total revenues, compensation and benefits decreased from 32% in 2016 to 30% in 2017. The decrease in compensation and benefits as a percentage of total revenues is primarily due to a higher revenue increase compared to a lower compensation and benefit increase.

## General and administration

General and administration expenses decreased 6% from \$67,050 in 2016 to \$63,203, in 2017, primarily due to decreases in non-income tax expenses of \$5,883 and website and systems development costs of \$2,392, partially offset by increases in communication, research and data services costs of \$2,330 and occupancy costs of \$2,043. As a percentage of total revenues, general and administration expenses decreased from 15% in 2016 to 12% in 2017. The decrease in general as a percentage of total revenues is primarily due to a higher revenue increase compared to a lower general and administration increase.

## Depreciation and amortization

Depreciation and amortization expense increased 6% from \$24,784 in 2016 to \$26,223 in 2017, primarily due to an increase in internally developed software amortization expense of \$1,664 and property and equipment depreciation expense of \$1,510, partially offset by a decrease in intangible asset amortization expense of \$1,735. As a percentage of total revenues, depreciation and amortization decreased from at 6% in 2016 to 5% in 2017.

## Envestnet | Yodlee

The following table presents loss from operations for the Envestnet | Yodlee segment:

	Year Ended December 31,				
	2018	2017	% Change	2016	% Change
	(in thousands, except for percentages)				
Revenues:					
Subscription-based	\$ 157,095	\$ 139,819	12 %	\$ 113,785	23 %
Professional services and other revenues	22,663	15,955	42 %	16,747	(5 )%
Total revenues	179,758	155,774	15 %	130,532	19 %
Operating expenses:					
Cost of revenues	18,742	13,244	42 %	10,858	22 %
Compensation and benefits	102,378	93,316	10 %	85,972	9 %
General and administration	36,164	32,073	13 %	33,034	(3 )%
Depreciation and amortization	32,487	36,597	(11 )%	39,215	(7 )%
Total operating expenses	189,771	175,230	8 %	169,079	4 %
Loss from operations	\$(10,013 )	\$(19,456 )	(49 )%	\$(38,547 )	50 %

Year ended December 31, 2018 compared to year ended December 31, 2017 for the Envestnet | Yodlee segment

## Revenues

Subscription-based recurring revenues

Subscription-base recurring revenues increased 12% from \$139,819 to \$157,095 in 2018, primarily due to broad increases in revenue from existing customers.

58

---



## Table of Contents

### Professional services and other revenues

Professional services and other revenues increased 42% from \$15,955 to \$22,663 in 2018, primarily due to timing of new data analytics customer deployments and upgrades of existing data analytics customers.

### Cost of revenues

The cost of revenues increased 42% from \$13,244 to \$18,742 in 2018, primarily due to the corresponding increase in subscription-based recurring revenues. As a percentage of total revenues, cost of revenues increased from 9% to 10% in 2017 and 2018, respectively.

### Compensation and benefits

Compensation and benefits increased 10% from \$93,316 to \$102,378 in 2018, primarily due to an increase in salaries, benefits and related payroll taxes of \$7,170, as a result of increased headcount to support organic growth, as well as increases in incentive compensation of \$1,303, non-cash stock-based compensation of \$672 and third party contract labor of \$639, partially offset by a decrease in short-term variable expenses of \$1,336. As a percentage of total revenues, compensation and benefits decreased from 60% to 57% in 2017 and 2018, respectively.

### General and administration

General and administration expenses increased 13% from \$32,073 to \$36,164 in 2018, primarily due to increases in non-recurring related expenses of \$1,328, system costs of \$988, bad debt expense of \$603, occupancy costs of \$570 and various other immaterial cost increases and decreases. As a percentage of total revenues, general and administration expenses decreased from 21% to 20% in 2017 and 2018, respectively.

### Depreciation and amortization

Depreciation and amortization decreased 11% from \$36,597 to \$32,487 in 2018, primarily due to an decrease in intangible asset amortization of \$4,553, mainly related to amortization of Yodlee backlog intangible assets which is reaching the end of its useful life in November 2019 and is therefore amortizing at a significantly lower rate in 2018 compared to 2017 as a result of accelerated amortization in the early years. This decrease was partially offset by an increase in depreciation and amortization expense of \$443. As a percentage of total revenues, depreciation and amortization expense decreased from 23% to 18% in 2017 and 2018, respectively.

Year ended December 31, 2017 compared to year ended December 31, 2016 for the Envestnet | Yodlee segment

### Revenues

#### Subscription-based recurring revenues

Subscription-based recurring revenues increased 23% from \$113,785 in 2016 to \$139,819 in 2017. This increase was primarily due to an increase of \$18.9 million in revenue attributed to our data analytics channel with the remainder primarily derived from our FI and YI channels.

#### Professional services and other revenues

Professional services and other revenues decreased 5% from \$16,747 in 2016 to \$15,955 in 2017. This decrease was primarily due to timing of new data analytics customer deployments.

Cost of revenues

Cost of revenues increased 22% from \$10,858 in 2016 to \$13,244 in 2017, primarily due to an increase in third party consulting and professional services of \$900 for new data analytics customer deployments and hosting and payment processing services of \$1,577 to support our overall revenue growth. As a percentage of total revenues, cost of revenues increased from 8% in 2016 to 9% in 2017.

Table of Contents

## Compensation and benefits

Compensation and benefits increased 9% from \$85,972 in 2016 to \$93,316 in 2017, primarily due to an increase in salaries, benefits and related payroll taxes of \$10,192, as a result of increased headcount to support organic growth and an increase related to the Wheelhouse acquisition, and an increase in incentive compensation of \$1,809, offset by a decrease in non-cash compensation expense of \$4,153. As a percentage of total revenues, compensation and benefits decreased from 66% in 2016 to 60% in 2017. The decrease in compensation and benefits as a percentage of total revenues is primarily due to a higher revenue increase compared to lower growth in compensation and benefit expenses.

## General and administration

General and administration expenses decreased 3% from \$33,034 in 2016 to \$32,073 in 2017, primarily due to decreases in litigation related expense of \$4,317 and realized losses on designated hedges of \$486, offset by increases in software purchase and maintenance of \$2,120 and occupancy cost of \$1,856. As a percentage of total revenues, general and administration expenses decreased from 25% in 2016 to 21% in 2017. The decrease in general and administration as a percentage of total revenues is primarily due to a higher revenue increase compared to lower growth in general and administration expenses.

## Depreciation and amortization

Depreciation and amortization expense decreased 7% from \$39,215 in 2016 to \$36,597 in 2017, primarily due to a decrease in intangible asset amortization of \$1,653 primarily due to a significant portion of the intangible assets being amortized using an accelerated expense method throughout the assets' useful lives and the majority of such assets being acquired prior to 2017, as well as a decrease in depreciation of property and equipment of \$965. As a percentage of total revenues, depreciation and amortization expense decreased from 30% in 2016 to 23% in 2017. The decrease in depreciation and amortization as a percentage of total revenues is primarily due to a higher revenue increase and a decrease in depreciation and amortization expenses.

## Nonsegment

The following table presents nonsegment operating expenses:

	Year Ended December 31,				
	2018	2017	% Change	2016	% Change
	(in thousands, except for percentages)				
Operating expenses:					
Compensation and benefits	\$22,917	\$13,839	66 %	\$11,224	23 %
General and administration	28,396	25,734	10 %	15,351	68 %
Total operating expenses	\$51,313	\$39,573	30 %	\$26,575	49 %

Year ended December 31, 2018 compared to year ended December 31, 2017 for nonsegment

## Compensation and benefits

Compensation and benefits increased 66% from \$13,839 to \$22,917 in 2018, primarily due to increases in non-cash compensation expenses of \$4,091, salaries, benefits and related payroll taxes of \$3,119 and incentive compensation of \$2,081.

General and administration

General and administration expenses increased 10% from \$25,734 to \$28,396 in 2018, primarily due to increases in systems development costs of \$2,715, professional and legal fees of \$1,244 and insurance, bank and payroll charges of \$513, partially offset by a decrease in non-recurring corporate expenses of \$2,593.

Table of Contents

Year ended December 31, 2017 compared to year ended December 31, 2016 for nonsegment

Compensation and benefits

Compensation and benefits increased 23% from \$11,224 in 2016 to \$13,839 in 2017, primarily due to increases in salaries, benefits and related payroll taxes of \$2,807.

General and administration

General and administration expenses increased 68% from \$15,351 in 2016 to \$25,734 in 2017, primarily due to increases in transaction related expenses of \$8,484, professional and legal fees of \$2,582 and marketing expense of \$524, partially offset by a decrease in fair market value adjustments to contingent consideration liabilities of \$1,588.

Non GAAP Financial Measures

In addition to reporting results according to GAAP, we also disclose certain financial measures to enhance the understanding of our operating performance. Those measures include “adjusted revenues”, “adjusted EBITDA”, “adjusted net income” and “adjusted net income per share”.

“Adjusted revenues” excludes the effect of purchase accounting on the fair value of acquired deferred revenue. Under GAAP, we record at fair value the acquired deferred revenue for contracts in effect at the time the entities were acquired. Consequently, revenue related to acquired entities for periods subsequent to the acquisition does not reflect the full amount of revenue that would have been recorded by these entities had they remained stand alone entities.

“Adjusted EBITDA” represents net income (loss) before deferred revenue fair value adjustment, interest income, interest expense, accretion on contingent consideration and purchase liability, income tax provision (benefit), depreciation and amortization, non cash compensation expense, restructuring charges and transaction costs, severance, fair market value adjustment on contingent consideration, litigation related expense, foreign currency and related hedging activity, other (income) loss, non-income tax expense adjustment, impairment of equity method investment, loss allocation from equity method investment and loss attributable to non controlling interest.

“Adjusted net income” represents net income (loss) before deferred revenue fair value adjustment, accretion on contingent consideration and purchase liability, non cash interest expense, non cash compensation expense, restructuring charges and transaction costs, severance, amortization of acquired intangibles, fair market value adjustment on contingent consideration, litigation related expense, foreign currency and related hedging activity, other (income) loss, non-income tax expense adjustment, impairment of equity method investment, loss allocation from equity method investment and loss attributable to non controlling interest. Reconciling items are presented gross of tax, and a normalized tax rate is applied to the total of all reconciling items to arrive at adjusted net income. The reconciling items, and resulting adjusted net income, are presented on a different basis than historically shown to eliminate the impact of quarterly volatility of the GAAP tax provision on the Company’s adjusted earnings figures.

“Adjusted net income per share” represents adjusted net income attributable to common stockholders divided by the diluted number of weighted average shares outstanding.

Our Board of Directors and our management use adjusted revenues, adjusted EBITDA, adjusted net income and adjusted net income per share:

As measures of operating performance;

For planning purposes, including the preparation of annual budgets;

To allocate resources to enhance the financial performance of our business;

To evaluate the effectiveness of our business strategies; and

In communications with our Board of Directors concerning our financial performance.

Our Compensation Committee, Board of Directors and our management may also consider adjusted EBITDA, among other factors, when determining management's incentive compensation.

Table of Contents

We also present adjusted revenues, adjusted EBITDA, adjusted net income and adjusted net income per share as supplemental performance measures because we believe that they provide our Board of Directors, management and investors with additional information to assess our performance. Adjusted revenues provide comparisons from period to period by excluding the effect of purchase accounting on the fair value of acquired deferred revenue. Adjusted EBITDA provide comparisons from period to period by excluding potential differences caused by variations in the age and book depreciation of fixed assets affecting relative depreciation expense and amortization of internally developed software, amortization of acquired intangible assets, litigation related expense, foreign currency and related hedging activity, income tax provision (benefit), restructuring charges and transaction costs, accretion on contingent consideration and purchase liability, fair market value adjustments on contingent consideration, non-income tax expense, other (income) expense, severance, impairment of equity method investment, loss allocation from equity method investment, loss attributable to non controlling interest and changes in interest expense and interest income that are influenced by capital structure decisions and capital market conditions. Our management also believes it is useful to exclude non cash stock based compensation expense from adjusted EBITDA and adjusted net income because non cash equity grants made at a certain price and point in time do not necessarily reflect how our business is performing at any particular time.

We believe adjusted revenues, adjusted EBITDA, adjusted net income and adjusted net income per share are useful to investors in evaluating our operating performance because securities analysts use adjusted revenues, adjusted EBITDA, adjusted net income and adjusted net income per share as supplemental measures to evaluate the overall performance of companies, and we anticipate that our investor and analyst presentations will include adjusted revenues, adjusted EBITDA, adjusted net income and adjusted net income per share.

Adjusted revenues, adjusted EBITDA, adjusted net income and adjusted net income per share are not measurements of our financial performance under GAAP and should not be considered as an alternative to revenues, net income, operating income or any other performance measures derived in accordance with GAAP, or as an alternative to cash flows from operating activities as a measure of our profitability or liquidity.

We understand that, although adjusted revenues, adjusted EBITDA, adjusted net income and adjusted net income per share are frequently used by securities analysts and others in their evaluation of companies, these measures have limitations as an analytical tool, and you should not consider them in isolation, or as a substitute for an analysis of our results as reported under GAAP. In particular you should consider:

Adjusted revenues, adjusted EBITDA, adjusted net income and adjusted net income per share do not reflect our cash expenditures, future requirements for capital expenditures or contractual commitments;

Adjusted revenues, adjusted EBITDA, adjusted net income and adjusted net income per share do not reflect changes in, cash requirements for, our working capital needs;

Adjusted revenues, adjusted EBITDA, adjusted net income and adjusted net income per share do not reflect non cash components of employee compensation;

Although depreciation and amortization are non cash charges, the assets being depreciated and amortized often will have to be replaced in the future, and adjusted EBITDA does not reflect any cash requirements for such replacements;

Due to either net losses before income tax expense or the use of federal and state net operating loss carryforwards in 2018, 2017 and 2016, we had cash income tax payments, net of refunds, of \$5,531, \$3,261, and \$1,114 in the years ended December 31, 2018, 2017 and 2016, respectively. Income tax payments will be higher if we continue to generate taxable income and our existing net operating loss carryforwards for federal and state income taxes have

been fully utilized or have expired; and

Other companies in our industry may calculate adjusted revenues, adjusted EBITDA, adjusted net income and adjusted net income per share differently than we do, limiting their usefulness as a comparative measure.

Management compensates for the inherent limitations associated with using adjusted revenues, adjusted EBITDA, adjusted operating income, adjusted net income and adjusted net income per share through disclosure of such limitations, presentation of our financial statements in accordance with GAAP and reconciliation of adjusted revenues to revenues, the most directly comparable GAAP measure and adjusted EBITDA, adjusted net income and adjusted net income per share to net income and net income per share, the most directly comparable GAAP measure. Further, our management also reviews GAAP



Table of Contents

measures and evaluates individual measures that are not included in some or all of our non U.S. GAAP financial measures, such as our level of capital expenditures and interest income, among other measures.

The following table sets forth a reconciliation of total revenues to adjusted revenues based on our historical results:

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Total revenues	\$812,363	\$683,679	\$578,164
Deferred revenue fair value adjustment	118	130	1,270
Adjusted revenues	\$812,481	\$683,809	\$579,434

The following table sets forth the reconciliation of net income (loss) to adjusted EBITDA based on our historical results:

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Net income (loss)	\$4,010	\$(3,280)	\$(55,567)
Add (deduct):			
Deferred revenue fair value adjustment	118	130	1,270
Interest income	(2,363)	(201)	(37)
Interest expense	25,203	16,347	16,600
Accretion on contingent consideration and purchase liability	222	512	150
Income tax provision (benefit)	(13,172)	1,591	15,077
Depreciation and amortization	77,626	62,820	63,999
Non-cash compensation expense	40,245	31,331	33,276
Restructuring charges and transaction costs	15,580	13,666	5,784
Severance	8,318	2,316	4,342
Fair market value adjustment on contingent consideration	—	—	1,588
Litigation related expense	—	1,033	5,591
Foreign currency and related hedging activity	(589)	494	(716)
Other income	—	—	(1,384)
Non-income tax expense adjustment	(590)	346	6,229
Impairment of equity method investment	—	—	734
Loss allocation from equity method investment	1,146	1,469	1,420
Loss attributable to non-controlling interest	1,791	316	1,081
Adjusted EBITDA	\$157,545	\$128,890	\$99,437

Table of Contents

The following table sets forth the reconciliation of net income (loss) to adjusted net income and adjusted net income per diluted share based on our historical results:

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Net income (loss)	\$4,010	\$ (3,280 )	\$ (55,567 )
Income tax provision (benefit) <sup>(1)</sup>	(13,172 )	1,591	15,077
Loss before income tax provision (benefit)	(9,162 )	(1,689 )	(40,490 )
Add (deduct):			
Deferred revenue fair value adjustment	118	130	1,270
Accretion on contingent consideration and purchase liability	222	512	150
Non-cash interest expense	13,905	8,994	8,244
Non-cash compensation expense	40,245	31,331	33,276
Restructuring charges and transaction costs	15,580	13,666	5,784
Severance	8,318	2,316	4,342
Amortization of acquired intangibles	53,856	42,127	45,515
Fair market value adjustment on contingent consideration	—	—	1,588
Litigation related expense	—	1,033	5,591
Foreign currency and related hedging activity	(589 )	494	(716 )
Other income	—	—	(1,384 )
Non-income tax expense adjustment	(590 )	346	6,229
Impairment of equity method investment	—	—	734
Loss allocation from equity method investment	1,146	1,469	1,420
Loss attributable to non-controlling interest	1,791	316	1,081
Adjusted net income before income tax effect	124,840	101,045	72,634
Income tax effect <sup>(2)</sup>	(33,705 )	(40,418 )	(29,054 )
Adjusted net income	\$91,135	\$ 60,627	\$ 43,580
Basic number of weighted-average shares outstanding	45,268,002	43,732,148	42,814,222
Effect of dilutive shares:			
Options to purchase common stock	1,304,493	1,649,225	1,278,827
Unvested restricted stock units	811,590	770,428	486,823
Diluted number of weighted-average shares outstanding	47,384,085	46,151,801	44,579,872
Adjusted net income per share - diluted	\$ 1.92	\$ 1.31	\$ 0.98

(1) For the years ended December 31, 2018, 2017 and 2016, the effective tax rate computed in accordance with GAAP equaled 143.8%, (94.2)% and (37.2)%, respectively.

(2) For the years ended December 31, 2018, 2017 and 2016, an estimated normalized effective tax rate of 27%, 40% and 40%, respectively, has been used to compute adjusted net income.

Note on Income Taxes: As of December 31, 2018, the Company had NOL carryforwards of approximately \$267,000 and \$153,000 for federal and state income tax purposes, respectively, available to reduce future income subject to income taxes. As a result, the amount of actual cash taxes the Company pays for federal, state and foreign income taxes differs significantly from the effective income tax rate computed in accordance with GAAP, and from the normalized rate shown above.



Table of Contents

The following tables set forth the reconciliation of revenues to adjusted revenues and income (loss) from operations to adjusted EBITDA based on our historical results for each segment for the years ended December 31, 2018, 2017 and 2016:

	Year Ended December 31, 2018			
	Envestnet	Envestnet   Yodlee	Non-Segment	Total
	(in thousands)			
Revenues	\$632,605	\$179,758	\$ —	\$812,363
Deferred revenue fair value adjustment	110	8	—	118
Adjusted revenues	\$632,715	\$179,766	\$ —	\$812,481
Income (loss) from operations	\$75,491	\$(10,013)	\$(51,313)	\$14,165
Add (deduct):				
Deferred revenue fair value adjustment	110	8	—	118
Accretion on contingent consideration and purchase liability	222	—	—	222
Depreciation and amortization	45,139	32,487	—	77,626
Non-cash compensation expense	19,342	11,552	9,351	40,245
Restructuring charges and transaction costs	3,143	1,735	10,702	15,580
Non-income tax expense adjustment	(1,177)	587	—	(590)
Severance	7,810	480	28	8,318
Other loss	66	4	—	70
Loss attributable to non-controlling interest	1,791	—	—	1,791
Adjusted EBITDA	\$151,937	\$36,840	\$(31,232)	\$157,545
	Year Ended December 31, 2017			
	Envestnet	Envestnet   Yodlee	Non-Segment	Total
	(in thousands)			
Revenues	\$527,905	\$155,774	\$ —	\$683,679
Deferred revenue fair value adjustment	38	92	—	130
Adjusted revenues	\$527,943	\$155,866	\$ —	\$683,809
Income (loss) from operations	\$75,449	\$(19,456)	\$(39,573)	\$16,420
Add:				
Deferred revenue fair value adjustment	38	92	—	130
Accretion on contingent consideration and purchase liability	512	—	—	512
Depreciation and amortization	26,223	36,597	—	62,820
Non-cash compensation expense	15,191	10,880	5,260	31,331
Restructuring charges and transaction costs	366	—	13,300	13,666
Non-income tax expense adjustment	346	—	—	346
Severance	1,954	346	16	2,316
Litigation related expense	—	1,033	—	1,033
Loss attributable to non-controlling interest	316	—	—	316
Adjusted EBITDA	\$120,395	\$29,492	\$(20,997)	\$128,890

Table of Contents

	Year Ended December 31, 2016			
	Investnet	Investnet   Yodlee	Non-Segment	Total
	(in thousands)			
Revenues	\$447,632	\$130,532	\$ —	\$578,164
Deferred revenue fair value adjustment	329	941	—	1,270
Adjusted revenues	\$447,961	\$131,473	\$ —	\$579,434
Income (loss) from operations	\$41,678	\$(38,547)	\$(26,575)	\$(23,444)
Add (deduct):				—
Deferred revenue fair value adjustment	329	941	—	1,270
Accretion on contingent consideration and purchase liability	150	—	—	150
Depreciation and amortization	24,784	39,215	—	63,999
Non-cash compensation expense	12,719	15,033	5,524	33,276
Restructuring charges and transaction costs	904	64	4,816	5,784
Non-income tax expense adjustment	6,229	—	—	6,229
Severance	3,334	670	338	4,342
Fair market value adjustment to contingent consideration	—	—	1,588	1,588
Litigation related expense	—	5,350	241	5,591
Foreign currency	—	(462)	—	(462)
Other loss	—	—	33	33
Loss attributable to non-controlling interest	1,081	—	—	1,081
Adjusted EBITDA	\$91,208	\$22,264	\$(14,035)	\$99,437

## Liquidity and Capital Resources

As of December 31, 2018, we had total cash and cash equivalents of \$289,345, compared to \$60,115 as of December 31, 2017. We plan to use existing cash as of December 31, 2018 and cash generated in the ongoing operations of our business to fund our current operations, capital expenditures and possible acquisitions or other strategic activity, and to meet our debt service obligations. If the cash generated in the ongoing operations of our business is insufficient to fund these requirements we may be required to borrow under our bank credit agreement to fund our ongoing operations or to fund potential acquisitions or other strategic activities.

## Credit Agreement

On July 18, 2017, the Company and certain of its subsidiaries entered into a Second Amended and Restated Credit Agreement with a group of banks (the “Banks”), for which Bank of Montreal acted as administrative agent (the “Administrative Agent”). Pursuant to the Second Amended and Restated Credit Agreement, the Banks agreed to provide to the Company revolving credit commitments (the “Revolving Credit Facility”) in the aggregate amount of up to \$350,000 which amount may be increased by \$50,000. The Second Amended and Restated Credit Agreement also includes a \$5,000 subfacility for the issuance of letters of credit.

Obligations under the Second Amended and Restated Credit Agreement are guaranteed by substantially all of Investnet’s U.S. subsidiaries, including Yodlee. Proceeds under the Second Amended and Restated Credit Agreement may be used to finance capital expenditures, working capital, permitted acquisitions and for general corporate purposes.

Envestnet will pay interest on borrowings made under the Second Amended and Restated Credit Agreement at rates between 1.50% and 3.25% above LIBOR based on the Company's total leverage ratio. Borrowings under the Second Amended and Restated Credit Agreement are scheduled to mature on July 18, 2022.

The Second Amended and Restated Credit Agreement contains customary conditions, representations and warranties, affirmative and negative covenants, mandatory prepayment provisions and events of default. The covenants include certain financial covenants requiring Envestnet to maintain compliance with a maximum senior leverage ratio, a maximum total

Table of Contents

leverage ratio, a minimum interest coverage ratio and minimum adjusted EBITDA, and provisions that limit the ability of Envestnet and its subsidiaries to incur debt, make investments, sell assets, create liens, engage in transactions with affiliates, engage in mergers and acquisitions, pay dividends and other restricted payments, grant negative pledges and change their business activities.

As of December 31, 2018, there were no revolving credit amounts outstanding under the Second Amended and Restated Credit Agreement.

## Convertible Notes

In December 2014, the Company issued \$172,500 of 1.75% Convertible Notes due December 2019. In May 2018, The Company issued \$345,000 of 1.75% Convertible Notes due June 2023.

The Convertible Notes are general unsecured senior obligations, subordinated in right of payment to our obligations under our Credit Agreement. The Convertible Notes are structurally subordinated to the indebtedness and other liabilities of any of our subsidiaries, other than our wholly owned subsidiary, EAM, which has fully and unconditionally guaranteed the notes on an unsecured basis. The Convertible Notes rank equally in right of payment with all of the Company's existing and future senior indebtedness.

## Issuance and sale of Common Shares to BlackRock

On December 20, 2018, the Company issued and sold to BlackRock approximately 2,356,000 common shares at a purchase price of \$52.13 per share, and warrants to purchase approximately 470,000 common shares at an exercise price of \$65.16 per share, subject to customary anti-dilution adjustments. The warrants are exercisable at BlackRock's option for four years from the date of issuance. The warrants may be exercisable through cash exercise or net issue exercise with cash settlement at the sole discretion of the Company. The gross proceeds received of approximately \$122,788 were allocated to the common shares and the warrants and recorded within stockholders' equity. In connection with this transaction, the Company incurred total transaction costs of approximately \$4,627 and recorded them as a reduction in equity.

## Cash Flows

The following table presents information regarding our cash flows and cash and cash equivalents for the periods indicated:

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Net cash provided by operating activities	\$117,385	\$108,250	\$83,146
Net cash used in investing activities	(241,679 )	(29,019 )	(57,927 )
Net cash provided by (used in) financing activities	352,294	(72,083 )	(22,345 )
Effect of exchange rate on changes on cash	(592 )	375	—
Net increase in cash, cash equivalents and restricted cash	227,408	7,523	2,874
Cash and cash equivalents, end of period	289,671	62,263	54,740

## Operating activities

Net cash provided by operating activities in 2018 increased by \$9,135 compared to 2017, primarily due to increases in net income of \$7,290, depreciation and amortization expense of \$14,806, stock-based compensation expense of

\$8,914 and an increase in the net change in operating assets and liabilities of \$8,635, offset by a decrease in the change in deferred income tax provision of \$19,032.

Net cash provided by operating activities in 2017 increased by \$25,104 compared to 2016, primarily due to a decrease in net loss of \$52,287, partially offset by decreases in the change in deferred income tax liabilities of \$10,181 and changes in operating assets and liabilities of \$13,372.



## Table of Contents

### Investing activities

Net cash used in investing activities in 2018 increased by \$212,660 compared to 2017, primarily due to increases in cash used for acquisitions of businesses of \$194,617, capitalization of internally developed software of \$11,444 and purchases of property and equipment of \$5,579.

Net cash used in investing activities in 2017 decreased by \$28,908 compared to 2016, primarily due to a decrease in cash used for acquisition of business of \$31,613, partially offset by an increase in capital expenditures for internally developed software of \$4,015.

In 2016, the Company acquired FinaConnect and Wheelhouse for net cash totaling \$6,693, and \$13,219, respectively, as well as a payment of \$11,701 related to the Yodlee dissenting shareholders (see “Note 3 – Business Acquisitions” to the notes to consolidated financial statements in Part II, Item 8).

### Financing activities

Net cash provided by financing activities in 2018 increased by \$424,377 compared to 2017, primarily due to increases in net proceeds from the issuance of Convertible Notes of \$335,018 and in the net proceeds from the issuance of common stock and warrants to BlackRock of \$122,704, offset by a net increase in payments on the revolving credit facility and Term Notes of \$17,806, purchases of treasury stock for stock-based tax withholdings of \$6,842 and purchases of ERS units of \$6,560.

Net cash used in financing activities in 2017 increased by \$49,738 compared to 2016, primarily due to increases in Term Note payments of \$27,862, payments on the revolving credit facility of \$22,500, purchase of treasury stock for stock-based minimum tax withholdings of \$3,008, and an increase in proceeds from borrowings on the revolving credit facility of \$5,000. These impacts were partially offset by an increase in proceeds from the exercise of stock options of \$3,027 and a decrease in payments of purchase consideration liabilities of \$3,021.

### Backlog

We sell subscriptions to our solutions through contracts that are generally one to three years in length, although terms can extend to as long as five years. Our subscription agreements with our customers generally contain scheduled minimum subscription fees, and usage-based fees which depend on the extent their customers or end users use our platform. We consider the unpaid contractual minimum payments under our subscription agreements to be our backlog. Due to the inherent volatility of backlog measured using contractual minimums, and the fact that contractual minimums are becoming increasingly less important to our business, we do not utilize backlog as a key management metric internally and we do not believe that it is a meaningful measurement of our future revenues.

We expect that the amount of backlog relative to the total value of our subscription agreements will change from year to year for several reasons, including the timing of contract renewals, the proportion of total subscription revenue represented by contractual minimum payments and the average non-cancellable terms of our subscription agreements. The change in backlog that results from these events may not be an indicator of the likelihood of renewal or expected future revenues.

We also expect that as our customer base continues to mature and customer deployments scale usage, renewals over time will increasingly have fewer contractual minimum fees because such fees are intended to decrease the timing risk associated with initial deployment commitments.

In addition, because revenue for any period is a function of revenue recognized from deferred revenue under contracts in existence at the beginning of the period, as well as contracts that are renewed and new customer contracts that are entered into during the period, backlog at the beginning of any period is not necessarily indicative of future performance.

Table of Contents

## Commitments

The following table sets forth information regarding our contractual obligations as of December 31, 2018:

	Payments Due by Period				
	Total	Less than 1 year	1 - 3 years	4 - 5 years	More than 5 years
	(in thousands)				
Convertible Notes	\$517,500	\$172,500	\$—	\$345,000	\$—
Operating leases <sup>(1)</sup>	106,314	15,997	30,142	20,726	39,449
Purchase obligations	41,112	25,755	14,151	1,206	—
Convertible Notes coupon interest payments	30,232	9,100	18,113	3,019	—
Undrawn credit facility fees	3,108	888	2,220	—	—
Investment in private company	2,300	1,200	1,100	—	—
Contingent consideration	750	750	—	—	—
Total	\$701,316	\$226,190	\$65,726	\$369,951	\$39,449

(1) We lease facilities under non-cancelable operating leases expiring at various dates through 2030.

The table above does not reflect the following:

• Amounts estimated for uncertain tax positions as the timing and likelihood of such payments cannot be reasonably estimated.

Voluntary employer matching contributions to our defined contribution benefit plans since the amount cannot be reasonably estimated. For the years ended December 31, 2018, 2017 and 2016, we made voluntary employer matching contributions of \$4,778, \$4,038 and \$2,270, respectively.

The Company includes various types of indemnification and guarantee clauses in certain arrangements. These indemnifications and guarantees may include, but are not limited to, infringement claims related to intellectual property, direct or consequential damages and guarantees to certain service providers and service level requirements with certain customers. The type and amount of any potential indemnification or guarantee varies substantially based on the nature of each arrangement. The Company has experienced no previous claims and cannot determine the maximum amount of potential future payments, if any, related to such indemnification and guarantee provisions. The Company believes that it is unlikely it will have to make material payments under these arrangements and therefore has not recorded a contingent liability in the consolidated balance sheets.

## Off Balance Sheet Arrangements

Other than operating leases as indicated above, we do not have any other off balance sheet arrangements.

## Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," which amends the existing accounting standards for revenue recognition. This standard is effective for financial statements issued by public companies for annual and interim periods beginning after December 15, 2017. These changes became effective for the Company's fiscal year beginning January 1, 2018 and have been reflected in these consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases." This update amends the requirements for assets and liabilities recognized for all leases longer than twelve months. Lessees will be required to recognize a lease liability measured on a discounted basis, which is the lessee's obligation to make lease payments arising from the lease, and a

right-of-use (“ROU”) asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. This standard will be effective for financial statements issued by public companies for the annual and interim periods beginning after December 15, 2018 and will be applied using a modified retrospective approach with optional practical expedients. Early adoption of the standard is permitted. The Company will adopt the new standard on its effective date of January 1, 2019 using the cumulative-effect adjustment transition method with certain available transitional practical

## Table of Contents

expedients. The Company has substantially completed the implementation of key changes to internal controls over financial reporting to allow it to timely compile the information needed to account for transactions under this new guidance.

The standard will have a material impact on our consolidated balance sheets and related disclosures but will not have a material impact on our consolidated income statements. The most significant impact will be the recognition of ROU assets and lease liabilities for operating leases.

The Company currently estimates adoption of ASU 2016-02 will result in the recognition of ROU assets and lease liabilities for operating leases of approximately \$66,000 and \$84,000, respectively, as of January 1, 2019. The difference between the ROU assets and lease liabilities primarily represents the existing deferred rent liabilities, resulting from historical straight-lining of operating leases, which was reclassified upon adoption to reduce the measurement of the ROU assets.

In March 2016, The FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting". This update is intended to reduce the cost and complexity of accounting for share-based payments; however, some changes may also increase volatility in reported earnings. Under the new guidance, all excess tax benefits and deficiencies will be recorded as an income tax benefit or expense in the income statement and excess tax benefits will be recorded as an operating activity in the statements of cash flows. The new guidance also allows withholding up to the maximum individual statutory tax rate without classifying the awards as a liability. The cash paid to satisfy the statutory income tax withholding obligation will be classified as a financing activity in the statements of cash flows. Lastly, the update allows forfeitures to be estimated or recognized when they occur. The requirements for the excess tax effects related to share-based payments at settlement must be applied on a prospective basis, and the other requirements under this standard are to be applied on a retrospective basis. This standard will be effective for financial statements issued by public companies for annual and interim periods beginning after December 15, 2016. These changes became effective for the Company's fiscal year beginning January 1, 2017 and have been reflected in these consolidated financial statements. As a result of the retrospective adoption of ASU 2016-09, for the year ended December 31, 2016 net cash provided by operating activities increased by \$4,455 with a corresponding offset to net cash used in financing activities. The Company did not elect an accounting policy change to record forfeitures as they occur and will continue to estimate forfeitures at each period.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments (Topic 326)". This update significantly changes the way that entities will be required to measure credit losses. The new standard requires that entities estimate credit losses based upon an "expected credit loss" approach rather than the "incurred loss" approach, which is currently used. The new approach will require entities to measure all expected credit losses for financial assets based on historical experience, current conditions, and reasonable forecasts of collectability. The change in approach is anticipated to impact the timing of recognition of credit losses. This ASU will become effective for beginning January 1, 2020. Early adoption is permitted for fiscal years beginning January 1, 2019. The Company is currently evaluating the potential impact of this guidance on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments," which clarifies eight specific cash flow issues in an effort to reduce diversity in practice in how certain transactions are classified within the statement of cash flows. This standard is effective for financial statements issued by public companies for annual and interim periods beginning after December 15, 2017. These changes became effective for the Company's fiscal year beginning January 1, 2018 and have been reflected in these consolidated financial statements. Retrospective adoption of ASU 2016-15 did not have a material impact on the Company's presentation of the consolidated statements of cash flows

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230) – Restricted Cash,” which amends ASC 230 to provide clarifying guidance on the classification and presentation of restricted cash in the statement of cash flows. Additional disclosure is required to reconcile between the statement of financial position and the statement of cash flows when the statement of financial position includes more than one line item for cash, cash equivalents, restricted cash, and restricted cash equivalents. This standard is effective for financial statements issued by public companies for annual and interim periods beginning after December 15, 2017. These changes became effective for the Company’s fiscal year beginning January 1, 2018 and included \$326 and \$2,148 of restricted cash in the total of cash, cash equivalents and restricted cash in the consolidated balance sheets at December 31, 2018 and 2017, respectively.

In January 2017, the FASB issued ASU 2017-01, “Business Combinations: Clarifying the Definition of a Business (Topic 805),” which provides a new framework for determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This standard is effective for financial statements issued by public companies for annual and interim periods beginning after December 15, 2017. These changes became effective for the Company’s fiscal year

## Table of Contents

beginning January 1, 2018 and did not have a material impact to these consolidated financial statements. This standard will be applied to all future business acquisition and disposal transactions.

In January 2017, the FASB issued ASU 2017-04, “Intangibles—Goodwill and Other (Topic 350),” which removes step two from the goodwill impairment test. As a result, an entity should perform its annual goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting units’ fair value. This standard will be effective for financial statements issued by public companies for annual and interim periods beginning after December 15, 2019. Early adoption is permitted. The Company has adopted this standard as of April 1, 2017, however it did not have a material impact on the Company’s consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, “Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting.” This update clarifies which changes to the terms and conditions of a share-based payment award require an entity to apply modification accounting. Specifically, an entity would not apply modification account if the fair value, vesting conditions, and classification as an equity or liability instrument are the same before and after the modification. This standard is effective for financial statements issued by public companies for annual and interim periods beginning after December 15, 2017. These changes became effective for the Company’s fiscal year beginning January 1, 2018. This standard will be applied to all future modifications of share-based payment awards.

In June 2018, the FASB issued ASU 2018-07, “Compensation – Stock Compensation (Topic 718): Improvements to Non-employee Share-Based Payment Accounting.” This update clarifies the accounting for share-based payment transactions for acquiring goods and services from non-employees. Specifically, the update aligns the accounting for payments to non-employees to match the accounting for payments to employees, no longer accounting for these transactions differently. This standard is effective for financial statements issued by public companies for annual and interim periods beginning after December 15, 2018. Early adoption of the standard is permitted. This standard will be applied to all future non-employee share-based payments.

In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement.” This update aims to improve the effectiveness of disclosure requirements on fair value measurement as part of the disclosure framework project. This standard is effective for financial statements issued by public companies for annual and interim periods beginning after December 15, 2019. Early adoption of the standard is permitted. The Company is currently evaluating the potential impact of this guidance on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, “Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force).” This update is intended to guide entities in evaluating the accounting for fees paid by a customer in a cloud computing arrangement by providing guidance for determining when the arrangement includes a software license. This standard is effective for financial statements issued by public companies for annual and interim periods beginning after December 15, 2019. Early adoption of the standard is permitted. The Company has elected to early adopt this standard beginning January 1, 2019.

### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

#### Market risk

Our exposure to market risk is directly related to revenues from asset management or administration earned based upon a contractual percentage of AUM or AUA. In the years ended December 31, 2018, 2017 and 2016, 59%, 60% and 61% of our revenues, respectively, were derived from revenues based on the market value of AUM or AUA. This percentage will vary over time. A decrease in the aggregate value of AUM or AUA may cause our revenue and income to decline. We do not use derivative financial instruments for speculative, hedging or trading purposes.





Table of Contents

Foreign currency risk

The expenses of our India subsidiary, which primarily consist of expenditures related to compensation and benefits, are paid using the Indian Rupee. We are directly exposed to changes in foreign currency exchange rates through the translation of these monthly expenditures into U.S. dollars. As of December 31, 2018, we estimate that a hypothetical 10% increase in the value of the Indian Rupee to the U.S. dollar would result in a decrease of approximately \$4,862 to pre-tax earnings and a hypothetical 10% decrease in the value of the Indian Rupee to the U.S. dollar would result in an increase of approximately \$3,978 to pre-tax earnings.

The Company transacts business with entities which provide payment for services in foreign currencies. We are directly exposed to changes in foreign currency exchange rates through the translation of these revenues into U.S. dollars. As of December 31, 2018, we estimate that a hypothetical 10% increase in the value of these currencies to the U.S. dollar would result in a decrease of approximately \$2,228 to pre-tax earnings and a hypothetical 10% decrease in the value of these currencies to the U.S. dollar would result in an increase of approximately \$2,133 to pre-tax earnings.

Interest rate risk

We are subject to market risk from changes in interest rates. The Company has a revolving credit facility that bears interest at LIBOR plus an applicable margin between 1.50% and 3.25%. As the LIBOR rates fluctuate, so too will the interest expense on amounts borrowed under the Second Amended and Restated Credit Agreement. Interest charged on the revolving credit facility during 2018 was approximately 4.1%. As of December 31, 2018, there were \$0 of revolving credit amounts outstanding under the Second Amended and Restated Credit Agreement. The Company incurred interest expense of \$4,648 for the year ended December 31, 2018 related to the Second Amended and Restated Credit Agreement. A hypothetical 0.25% increase or decrease in our interest rate would increase or decrease interest expense on an annual basis by approximately \$270.

Table of Contents

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors

Envestnet, Inc.:

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheets of Envestnet, Inc. and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company acquired Folio Dynamics Holdings, Inc. and all of the issued and outstanding membership interests of a private company (collectively the "Acquired Companies") during 2018, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2018 the Acquired Companies' internal control over financial reporting associated with total assets of \$222,223,000 and total revenues of \$68,122,000 included in the consolidated financial statements of Envestnet, Inc. and subsidiaries as of and for the year ended December 31, 2018. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of the Acquired Companies.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for revenue transactions with customers due to the adoption of Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers, as amended.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating

the design and operating effectiveness of internal control based on the assessed risk. Our audits

73

---

Table of Contents

also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

We have served as the Company's auditor since 2013.

Chicago, Illinois

March 1, 2019

Table of Contents

Envestnet, Inc.

Consolidated Balance Sheets

(in thousands, except share information)

	December 31,	
	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$289,345	\$60,115
Fees receivable, net	68,004	51,522
Prepaid expenses and other current assets	23,557	19,470
Total current assets	380,906	131,107
Property and equipment, net	44,991	35,909
Internally developed software, net	38,209	22,174
Intangible assets, net	305,241	222,731
Goodwill	519,102	432,955
Other non-current assets	25,298	17,176
Total assets	\$1,313,747	\$862,052
Liabilities and Equity		
Current liabilities:		
Accrued expenses and other liabilities	\$133,298	\$105,897
Accounts payable	19,567	11,097
Convertible Notes due 2019	165,711	—
Contingent consideration	732	2,115
Deferred revenue	23,988	21,246
Total current liabilities	343,296	140,355
Convertible Notes due 2023	294,725	—
Convertible Notes due 2019	—	158,990
Revolving credit facility	—	81,168
Contingent consideration	—	666
Deferred revenue	6,910	12,047
Deferred rent and lease incentive	17,569	15,185
Deferred tax liabilities, net	640	969
Other non-current liabilities	18,005	15,102
Total liabilities	681,145	424,482
Commitments and contingencies		
Redeemable units in ERS	—	900
Equity:		
Stockholders' equity:		
Preferred stock, par value \$0.005, 50,000,000 shares authorized	—	—
Common stock, par value \$0.005, 500,000,000 shares authorized; 61,238,898 and 57,450,056 shares issued as of December 31, 2018 and December 31, 2017, respectively; 48,121,800 and 44,700,641 shares outstanding as of December 31, 2018 and December 31, 2017, respectively	306	287
Additional paid-in capital	761,128	556,257

Edgar Filing: ENVESTNET, INC. - Form 10-K

Accumulated deficit	(58,882	) (73,854	)
Treasury stock at cost, 13,117,098 and 12,749,415 shares as of December 31, 2018 and December 31, 2017, respectively	(67,858	) (47,042	)
Accumulated other comprehensive income (loss)	(994	) 624	
Total stockholders' equity	633,700	436,272	
Non-controlling interest	(1,098	) 398	
Total equity	632,602	436,670	
Total liabilities and equity	\$1,313,747	\$862,052	

See accompanying notes to Consolidated Financial Statements.

75

---

Table of Contents

Envestnet, Inc.

Consolidated Statements of Operations

(in thousands, except share and per share information)

	Year Ended December 31,		
	2018	2017	2016
Revenues:			
Asset-based	\$481,233	\$410,016	\$352,498
Subscription-based	295,467	245,867	198,125
Total recurring revenues	776,700	655,883	550,623
Professional services and other revenues	35,663	27,796	27,541
Total revenues	812,363	683,679	578,164
Operating expenses:			
Cost of revenues	263,400	219,037	180,590
Compensation and benefits	317,188	264,392	241,584
General and administration	139,984	121,010	115,435
Depreciation and amortization	77,626	62,820	63,999
Total operating expenses	798,198	667,259	601,608
Income (loss) from operations	14,165	16,420	(23,444 )
Other income (expense):			
Interest income	2,363	201	37
Interest expense	(25,203 )	(16,347 )	(16,600 )
Other expense, net	(487 )	(1,963 )	(483 )
Total other expense, net	(23,327 )	(18,109 )	(17,046 )
Loss before income tax provision (benefit)	(9,162 )	(1,689 )	(40,490 )
Income tax provision (benefit)	(13,172 )	1,591	15,077
Net income (loss)	4,010	(3,280 )	(55,567 )
Add: Net loss attributable to non-controlling interest	1,745	—	—
Net income (loss) attributable to Envestnet, Inc.	\$5,755	\$(3,280 )	\$(55,567 )
Net income (loss) per share attributable to Envestnet, Inc.:			
Basic	\$0.13	\$(0.08 )	\$(1.30 )
Diluted	\$0.12	\$(0.08 )	\$(1.30 )
Weighted average common shares outstanding:			
Basic	45,268,002	43,732,148	42,814,222
Diluted	47,384,085	43,732,148	42,814,222

See accompanying notes to Consolidated Financial Statements.





Table of Contents

Envestnet, Inc.

Consolidated Statements of Comprehensive Income (Loss)

(in thousands)

	Year Ended December 31,		
	2018	2017	2016
Net income (loss) attributable to Envestnet, Inc.	\$5,755	\$(3,280)	\$(55,567)
Other comprehensive income (loss), net of taxes:			
Foreign currency translation gain (loss)	(1,618 )	1,046	(412 )
Loss on foreign currency contracts designated as cash flow hedges reclassified to earnings	—	—	(204 )
Total other comprehensive income (loss), net of taxes	(1,618 )	1,046	(616 )
Comprehensive income (loss), net of taxes	\$4,137	\$(2,234)	\$(56,183)

See accompanying notes to Consolidated Financial Statements.

Table of Contents

Envestnet, Inc.  
Consolidated Statements of Stockholders' Equity  
(in thousands, except share information)

	Common Stock		Treasury Stock Common		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Non- controlling Interest	Total Equity
	Shares	Amount	Shares	Amount					
Balance, December 31, 2015	53,925,415	\$ 270	(11,946,289)	\$(20,654)	\$474,726	\$ 194	\$(15,007 )	\$ 398	\$439,927
Exercise of stock options	598,382	2	—	—	4,922	—	—	—	4,924
Issuance of common stock - vesting of restricted stock units	1,118,889	6	—	—	—	—	—	—	6
Stock-based compensation expense	—	—	—	—	32,572	—	—	—	32,572
Excess tax benefits from stock-based compensation expense	—	—	—	—	4,455	—	—	—	4,455
Purchase of treasury stock for stock-based minimum tax withholdings	—	—	(412,220 )	(10,966 )	—	—	—	—	(10,966 )
Common stock shares repurchased	—	—	(43,610 )	(1,448 )	—	—	—	—	(1,448 )
Foreign currency translation loss	—	—	—	—	—	(412 )	—	—	(412 )
Loss on foreign currency contracts designated as cash flow hedges reclassified to earnings	—	—	—	—	—	(204 )	—	—	(204 )
Net loss	—	—	—	—	—	—	(55,567 )	—	(55,567 )
Balance, December 31, 2016	55,642,686	\$ 278	(12,402,119)	\$(33,068)	\$516,675	\$ (422 )	\$(70,574 )	\$ 398	\$413,287

Edgar Filing: ENVESTNET, INC. - Form 10-K

Exercise of stock options	837,857	4	—	—	7,947	—	—	—	7,951
Issuance of common stock - vesting of restricted stock units	969,513	5	—	—	—	—	—	—	5
Stock-based compensation expense	—	—	—	—	31,635	—	—	—	31,635
Purchase of treasury stock for stock-based tax withholdings	—	—	(347,296 )	(13,974 )	—	—	—	—	(13,974 )
Foreign currency translation gain	—	—	—	—	—	1,046	—	—	1,046
Net loss	—	—	—	—	—	—	(3,280 )	—	(3,280 )
Balance, December 31, 2017	57,450,056	\$ 287	(12,749,415)	\$(47,042)	\$556,257	\$ 624	\$(73,854 )	\$ 398	\$436,670
Adoption of ASC 606 (See Note 4)	—	—	—	—	—	—	9,217	—	9,217
Exercise of stock options	359,345	2	—	—	5,303	—	—	—	5,305
Issuance of common stock - vesting of restricted stock units	1,073,681	4	—	—	—	—	—	—	4
Stock-based compensation expense	—	—	—	—	39,969	—	—	276	40,245
Purchase of treasury stock for stock-based tax withholdings	—	—	(367,683 )	(20,816 )	—	—	—	—	(20,816 )
Issuance of non-controlling units in private company	—	—	—	—	—	—	—	473	473
Issuance of Convertible Notes due 2023, net of offering costs	—	—	—	—	46,611	—	—	—	46,611
Issuance of common stock and warrants - private placement, net of	2,355,816	13	—	—	118,148	—	—	—	118,161

Edgar Filing: ENVESTNET, INC. - Form 10-K

offering costs									
Purchase of non-controlling units in ERS	—	—	—	—	(5,160 )	—	—	(1,400 )	(6,560 )
Reclassification of redeemable units	—	—	—	—	—	—	—	900	900
Foreign currency translation loss	—	—	—	—	—	(1,618 )	—	—	(1,618 )
Net income (loss)	—	—	—	—	—	—	5,755	(1,745 )	4,010
Balance, December 31, 2018	61,238,898	\$ 306	(13,117,098)	\$(67,858)	\$761,128	\$ (994 )	\$(58,882 )	\$(1,098 )	\$632,602

See accompanying notes to Consolidated Financial Statements.

Table of Contents

Envestnet, Inc.

Consolidated Statements of Cash Flows

(in thousands)

	Year Ended December 31,		
	2018	2017	2016
<b>OPERATING ACTIVITIES:</b>			
Net income (loss)	\$4,010	\$(3,280)	\$(55,567)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	77,626	62,820	63,999
Deferred rent and lease incentive amortization	671	1,027	(438 )
Provision for doubtful accounts	1,618	867	1,122
Deferred income taxes (benefits)	(23,629)	(4,597 )	5,584
Stock-based compensation expense	40,245	31,331	33,276
Non-cash interest expense	14,534	8,994	8,244
Accretion on contingent consideration and purchase liability	222	512	150
Payments of contingent consideration	—	(357 )	(124 )
Fair market value adjustment to contingent consideration	—	—	1,588
Loss allocation from equity method investment	1,146	1,469	1,420
Impairment of equity method investment	—	—	734
Loss on disposal of fixed assets	189	76	398
Changes in operating assets and liabilities, net of acquisitions:			
Fees and other receivables	(12,890)	(8,121 )	1,646
Prepaid expenses and other current assets	(887 )	(787 )	(2,861 )
Other non-current assets	(3,336 )	(1,690 )	1,473
Accrued expenses and other liabilities	12,939	16,810	17,174
Accounts payable	1,743	(442 )	(462 )
Deferred revenue	345	1,191	2,014
Other non-current liabilities	2,839	2,427	3,776
Net cash provided by operating activities	117,385	108,250	83,146
<b>INVESTING ACTIVITIES:</b>			
Purchase of property and equipment	(20,524)	(14,945 )	(13,967 )
Capitalization of internally developed software	(24,068)	(12,624 )	(8,609 )
Investment in private companies	(1,200 )	(1,450 )	(2,238 )
Acquisition of businesses	(194,617)	—	(31,613 )
Other	(1,270 )	—	(1,500 )
Net cash used in investing activities	(241,679)	(29,019 )	(57,927 )
<b>FINANCING ACTIVITIES:</b>			
Proceeds from issuance of Convertible Notes due 2023	345,000	—	—
Convertible Notes due 2023 issuance costs	(9,982 )	—	—
Proceeds from borrowings on revolving credit facility	195,000	35,000	40,000
Payments on revolving credit facility	(276,168)	(62,500 )	(40,000 )
Revolving credit facility issuance costs	—	(94 )	—
Payments of contingent consideration	(2,193 )	(1,929 )	(3,605 )
Payments of definite consideration	—	(445 )	—
Payments of purchase consideration liabilities	—	(235 )	(3,256 )
Issuance of common stock and warrants - private placement, net of offering costs	122,704	—	—
Payment of Term Notes	—	(35,862 )	(8,000 )

Edgar Filing: ENVESTNET, INC. - Form 10-K

Proceeds from exercise of stock options	5,305	7,951	4,924
Purchase of treasury stock for stock-based tax withholdings	(20,816)	(13,974)	(10,966 )
Purchase of ERS units	(6,560 )	—	—
Common stock acquired under the share repurchase program	—	—	(1,448 )
Issuance of restricted stock units	4	5	6
Net cash provided by (used in) financing activities	352,294	(72,083 )	(22,345 )

79

---

Table of Contents

EFFECT OF EXCHANGE RATE CHANGES ON CASH	(592	) 375	—
INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	227,408	7,523	2,874
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF PERIOD	62,263	54,740	51,866
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, END OF PERIOD	\$289,671	\$62,263	\$54,740
Supplemental disclosure of cash flow information - net cash paid during the period for income taxes	\$5,531	\$3,261	\$1,114
Supplemental disclosure of cash flow information - cash paid during the period for interest	10,409	7,353	8,356
Supplemental disclosure of non-cash operating, investing and financing activities:			
Transaction costs of issuance of common stock and warrants included in accrued expenses and other liabilities	4,543	—	—
Purchase of fixed assets included in accounts payable and accrued expenses and other liabilities	1,997	1,286	1,136
Leasehold improvements funded by lease incentive	1,780	2,098	1,522
Non-cash debt issuance costs	—	2,230	—
Purchase liabilities included in accrued expenses and other liabilities	—	856	996
Contingent consideration issued in business acquisitions	—	—	4,868

See accompanying notes to Consolidated Financial Statements.

Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements

(in thousands, except share and per share amounts)

1. Organization and Description of Business

Envestnet, Inc. (“Envestnet”) and its subsidiaries (collectively, the “Company”) provide intelligent systems for wealth management and financial wellness. Envestnet’s unified technology enhances advisor productivity and strengthens the wealth management process. Through a combination of platform enhancements, partnerships and acquisitions, Envestnet empowers enterprises and advisors to more fully understand their clients and deliver better outcomes. The Company offers these solutions principally through the following product and services suites:

Envestnet | Enterprise provides an end-to-end open architecture wealth management platform, through which advisors can construct portfolios for clients. It begins with aggregated household data which then leads to a financial plan, asset allocation, investment strategy, portfolio management, rebalancing and performance reporting. Advisors have access to over 19,100 investment products. Envestnet | Enterprise also sells data aggregation and reporting, data analytics, and digital advice capabilities to customers.

Envestnet | Tamarac™ provides leading trading, rebalancing, portfolio accounting, performance reporting and client relationship management software, principally to high end registered investment advisers (“RIAs”).

Envestnet | Retirement Solutions (“ERS”) offers a comprehensive suite of services for advisor-sold retirement plans. Leveraging integrated technology, ERS addresses the regulatory, data, and investment needs of retirement plans and delivers the information holistically.

Envestnet | PMC®, or Portfolio Management Consultants (“PMC”) provides research and consulting services to assist advisors in creating investment solutions for their clients. These solutions include nearly 4,000 vetted third party managed account products, multi-manager portfolios, fund strategist portfolios, as well as over 1,200 proprietary products, such as quantitative portfolios and fund strategist portfolios. PMC also offers an overlay service, which includes patented portfolio overlay and tax optimization services.

Envestnet | Yodlee™ is a leading data aggregation and data analytics platform powering dynamic, cloud-based innovation for digital financial services.

Envestnet operates four RIAs and a registered broker-dealer. The RIAs are registered with the U.S. Securities and Exchange Commission (“SEC”). The broker-dealer is registered with the SEC, all 50 states and the District of Columbia and is a member of the Financial Industry Regulatory Authority (“FINRA”).

2. Summary of Significant Accounting Policies

The Company follows accounting standards established by the Financial Accounting Standards Board (“FASB”) to ensure consistent reporting of financial condition, results of operations and cash flows. References to U.S. generally accepted accounting principles (“GAAP”) in these footnotes are to the FASB Accounting Standards Codification™, sometimes referred to as the codification or (“ASC”).

**Principles of Consolidation**—The consolidated financial statements include the accounts of Envestnet and its subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

**Management Estimates**—Management of the Company has made certain estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with GAAP. Areas requiring the use of management estimates relate to estimating uncollectible receivables, revenue recognition, valuations and assumptions used for impairment testing of goodwill, intangible and other long-lived assets, fair value of restricted stock and stock options issued, fair value of contingent consideration, realization of deferred tax assets, uncertain tax positions, sales tax liabilities, fair value of the liability portion of the convertible debt, fair value of warrants issued, commitments and contingencies and assumptions used to allocate purchase prices in business combinations. Actual results could differ materially from these estimates under different assumptions or conditions.



Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

Revenue Recognition

The Company derives revenues from asset-based services, subscription-based services and professional services and other sources. Revenues are recognized when control of these services is transferred to our customers, in an amount that reflects the consideration that we expect to be entitled to in exchange for those services. All revenue recognized in the consolidated statements of operations is considered to be revenue from contracts with customers. Sales and usage-based taxes are excluded from revenues.

Asset-based recurring revenues—Asset-based recurring revenues primarily consist of fees for providing customers continuous access to platform services through the Company’s uniquely customized platforms. These platform services include investment manager research, portfolio diagnostics, proposal generation, investment model management, rebalancing and trading, portfolio performance reporting and monitoring solutions, billing and back office and middle-office operations and administration and are made available to customers throughout the contractual term from the date the customized platform is launched.

The asset-based fees the Company earns are generally based upon variable percentages of assets managed or administered on our platforms. The fee percentage varies based on the level and type of services the Company provides to its customers, as well as the values of existing customer accounts. The values of the customer accounts are affected by inflows or outflows of customer funds and market fluctuations.

The platform services are substantially the same over each quarter and performed in a similar manner over the contract period, and are considered stand-ready promises. The platform services that are delivered to the customer over the quarter are considered distinct, as the customer benefits distinctly from each increment of our services and each quarter is separately identified in the contract, and are considered to be a single performance obligation under the new revenue standard.

The pricing generally resets each quarter and the pricing structure is consistent throughout the term of the contract. The variable fees are generally calculated and billed quarterly in advance based on preceding quarter-end values and the variable amounts earned from the platform services relate specifically to the benefits transferred to the customer during that quarter. Accordingly, revenue is allocated to the specific quarter in which services are performed.

The asset-based contracts generally contain performance obligations and revenue is recognized on a ratable basis over the quarter beginning on the date that the platform services are made available to the customer as the customer simultaneously consumes and receives the benefits of the services. All asset-based fees are recognized in the Envestnet segment.

For certain services provided by third parties, the Company evaluates whether it is the principal (revenues reported on a gross basis) or agent (revenues reported on a net basis). Generally, the Company reports customer fees including charges for third party service providers where the Company has a direct contract with such third party service providers on a gross basis, whereas the amounts billed to its customers are recorded as revenues, and amounts paid to third party service providers are recorded as cost of revenues. The Company is the principal in the transaction because it controls the services before they are transferred to its customers. Control is evidenced by the Company being primarily responsible to its customers and having discretion in establishing pricing.

Subscription-based recurring revenues—Subscription-based recurring revenues primarily consist of fees for providing customers continuous access to the Company’s platform for wealth management and financial wellness. The subscription-based fees generally include fixed fees and or usage-based fees.

Generally, the subscription services are substantially the same over each quarter and performed in a similar manner over the contract period, and are considered stand-ready promises. Quarterly subscription services are considered distinct as the customer can benefit from each increment of services on its own and each quarter is separately identified in the contract, and services are considered to be a single performance obligation under the new revenue standard.

The usage-based pricing generally resets each quarter and the pricing structure is generally consistent throughout the term of the contract. The fixed fees are generally calculated and billed quarterly in advance. The usage-based fees are generally calculated and are billed either monthly or quarterly based on the actual usage and relate specifically to the benefits transferred to the customer during that quarter. Accordingly, revenue is allocated to the specific quarter in which services are performed.

Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

Certain subscription-based contracts contain multiple performance obligations (i.e. platform services performance obligation and professional services performance obligation). Fixed fees are generally recognized on a ratable basis over the quarter beginning when the subscription services are made available to the customer, as the customer simultaneously receives and consumes the benefits of the subscription services. Usage-based revenue is recognized on a monthly basis as the customer receives and consumes the benefit as the Company provides the services. Subscription-based fees are recognized in both the Envestnet and Envestnet | Yodlee segments.

Professional services and other revenues— The Company earns professional services fees by providing contractual customized services and platform software development as well as initial implementation fees. Professional services contracts generally have fixed prices, and generally specify the deliverables in the contract. Certain professional services contracts are billed on a time and materials basis and revenue is recognized over time as the services are performed. For contracts billed on a fixed price basis, revenue is recognized over time based on the proportion of services performed. Initial implementation fees are fixed and recognized ratably over the contract term.

Other revenue primarily includes revenue related to the Advisor Summit. Other revenue is recognized when the events are held. Other revenue is not significant.

The majority of the professional services and other contracts contain one performance obligation. Professional services and other revenues are recognized in both the Envestnet and Envestnet | Yodlee segments.

Arrangements with multiple performance obligations— Certain of the Company's contracts with customers contain multiple performance obligations such as platform services performance obligation and professional services performance obligation. For such arrangements, the Company allocates revenue to each performance obligation based on its relative standalone selling price. Standalone selling prices of services are estimated based on observable transactions when these services are sold on a standalone basis or based on expected cost plus margin.

Contract Balances—The Company records contract liabilities (deferred revenue) when cash payments are received in advance of its performance. The term between invoicing date and when payment is due is generally not significant. For the majority of its arrangements, the Company requires advance quarterly payments before the services are delivered to the customer.

Contract assets would exist when revenues have been recorded (i.e. control of goods or services has been transferred to the customer) but customer payment is contingent on a future event beyond the passage of time (i.e. satisfaction of additional performance obligations). The Company does not have any material contract assets. Unbilled receivables, which are not classified as contract assets, represent arrangements in which revenues have been recorded prior to billing and right to payment is unconditional.

Deferred revenue primarily consists of implementation fees, professional services, and subscription fee payments received in advance from customers.

Deferred sales incentive compensation—Sales incentive compensation earned by the Company's sales force is considered an incremental and recoverable cost to acquire a contract with a customer. Sales incentive compensation for initial contracts is deferred and amortized on a straight-line basis over the period of benefit, which the Company has determined to be five years. The Company determined the period of benefit by taking into consideration its customer contracts, life of the technology and other factors. Sales incentive compensation for renewal contracts are deferred and amortized on a straight-line basis over the related contractual renewal period. Deferred sales incentive compensation is

included in other non-current assets on the consolidated balance sheet and amortization expense is included in compensation and benefits expenses on the consolidated statements of operations.

The Company has applied the practical expedient to recognize the incremental costs of obtaining contracts as an expense when incurred if the amortization period would have been one year or less. These costs are included in compensation and benefits expenses on the consolidated statements of operations.

Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

**Cost of Revenues**—Cost of revenues primarily includes expenses related to third party investment management and clearing, custody and brokerage services. Generally, these expenses are calculated based upon a contractual percentage of the market value of assets held in customer accounts measured as of the end of each quarter and are recognized ratably throughout the quarter based on the number of days in the quarter.

**Allowance for Doubtful Accounts**—The Company evaluates the need for an allowance for doubtful accounts for potentially uncollectible fees receivable. In establishing the amount of the allowance, if any, customer-specific information is considered related to delinquent accounts, including historical loss experience and current economic conditions. As of December 31, 2018, and 2017, the Company's allowance for doubtful accounts was \$826 and \$407, respectively.

**Cash and Cash Equivalents**—The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are recorded at cost, which approximates fair value. The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents.

**Restricted Cash**—The following table reconciles cash, cash equivalents and restricted cash from the consolidated balance sheets to amounts reported within the consolidated statements of cash flows:

	December 31,		
	2018	2017	2016
Cash and cash equivalents	\$289,345	\$60,115	\$52,592
Restricted cash included in prepaid expenses and other current assets	158	2,000	429
Restricted cash included in other non-current assets	168	148	1,719
Total cash, cash equivalents and restricted cash	\$289,671	\$62,263	\$54,740

**Investments**—The Company has investments that are recorded either at cost or using the equity method of accounting. Investments are included in other non-current assets on the consolidated balance sheets and consist of non-marketable investments in privately held companies. The Company reviews all investments on a regular basis to evaluate the carrying amount and economic viability of these investments. This policy includes, but is not limited to, reviewing each of the investee's cash position, financing needs, earnings/revenue outlook, operational performance, management/ownership changes and competition. The evaluation process is based on information that the Company requests from these investees. This information is not subject to the same disclosure regulations as U.S. publicly traded companies, and as such, the basis for these evaluations is subject to the timing and accuracy of the data received from these investees.

The Company has investments in which it uses the equity method of accounting to record its portion of investments in these privately held companies' net income or loss on a one quarter lag from the actual results of operations. The Company uses the equity method of accounting because of its less than 50% ownership and lack of control. The Company's interest in the earnings or losses of the privately held companies will be reflected in other expense, net on the consolidated statements of operations.

The Company's investments are assessed for impairment when a review of the investee's operations indicates that there is a decline in value of the investment and the decline is other than temporary. Such indicators include, but are not limited to, limited capital resources, limited prospects of receiving additional financing, and prospects for liquidity of the related securities. Impaired investments are written down to estimated fair value. The Company estimates fair value using a variety of valuation methodologies, including comparing the investee with publicly traded companies in similar lines of business, applying valuation multiples to estimated future operating results and estimated discounted future cash flows. There were \$0, \$0 and \$734 in impairments to investments during the years ended December 31, 2018, 2017 and 2016, respectively.

Property and Equipment—Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation of furniture and equipment is computed using the straight-line method based on estimated useful lives of the depreciable assets. Leasehold improvements are amortized on a straight-line basis over their estimated economic useful lives or the remaining lease term, whichever is shorter. Improvements are capitalized, while repairs and maintenance costs are charged

Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

to operations as incurred. Assets are reviewed for recoverability whenever events or circumstances indicate the carrying value may not be recoverable.

**Internally Developed Software for Internal Use**—Costs incurred in the preliminary stages of development are expensed as incurred. Once an application has reached the development stage, internal and external costs, if direct and incremental, are capitalized until the software is substantially complete and ready for its intended use. Capitalization ceases upon completion of all substantial testing. The Company also capitalizes costs related to specific upgrades and enhancements when it is probable the expenditures will result in additional functionality. Maintenance and training costs are expensed as incurred. Internally developed software is amortized on a straight-line basis over its estimated useful life. Management evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets. There were no impairments of internally developed software for internal use during the years ended December 31, 2018, 2017 and 2016.

**Goodwill and Intangible Assets**—Goodwill consists of the excess of the purchase price over the fair value of identifiable net assets of businesses acquired. Goodwill is reviewed for impairment each year using a qualitative or quantitative process that is performed at least annually or whenever events or circumstances indicate that impairment may have occurred. The Company performs the annual impairment analysis on October 31 in order to provide management time to complete the analysis prior to year-end. The Company has concluded that it has two reporting units.

Prior to performing the quantitative evaluation, an assessment of qualitative factors may be performed to determine whether it is more likely than not that the fair value of a reporting unit exceeds the carrying value. If it is determined that it is unlikely that the carrying value exceeds the fair value, the Company is not required to complete the quantitative goodwill impairment evaluation. If it is determined that the carrying value may exceed fair value when considering qualitative factors, a quantitative goodwill impairment evaluation is performed.

When performing the quantitative evaluation, if the carrying value of the reporting unit exceeds its fair value, an impairment loss equal to the difference will be recorded.

No goodwill impairment charges have been recorded for the years ended December 31, 2018, 2017 and 2016.

**Intangible assets** are recorded at cost less accumulated amortization. Intangible assets are reviewed for impairment whenever events or changes in circumstances may affect the recoverability of the net assets. Such reviews include an analysis of current results and take into consideration the undiscounted value of projected operating cash flows. No intangible asset impairment charges have been recorded for the years ended December 31, 2018, 2017 and 2016.

**Operating Leases**—In certain circumstances, the Company enters into leases with free rent periods, rent escalations or lease incentives over the term of the lease. In such cases, the Company calculates the total payments over the term of the lease and records them ratably as rent expense over that term.

**Income Taxes**—The Company uses the asset and liability method to account for income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company records a valuation allowance to reduce deferred tax assets to an amount that is more likely than not to be realized.

The Company follows authoritative guidance related to how uncertain tax positions should be recognized, measured, disclosed and presented in the consolidated financial statements. This requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained "when challenged" or "when examined" by the applicable tax authority. The tax benefits recognized in the consolidated financial statements from tax positions are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

Non-income Tax Liabilities—Certain of the Company’s revenues are subject to sales and use taxes in certain jurisdictions where it conducts business in the United States. During 2018 and 2017, the Company estimated that a sales and

85

---



Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

use tax liability of \$8,643 and \$8,522, respectively, was probable related to multiple taxing jurisdictions with respect to revenues in the years ended December 31, 2018 and December 31, 2017, and prior years. This amount is included in accrued expenses and other liabilities on the consolidated balance sheets. For the same periods, the Company also estimated a sales and use tax receivable of \$5,246 and \$2,704, respectively, related to estimated recoverability of a portion of the liability. This amount is included in prepaid expenses and other current assets on the consolidated balance sheets.

For the years ended December 31, 2018, 2017 and 2016 the Company recorded a net sales and use tax benefit of \$1,176 including interest of \$130, and a net sales and use tax expense of \$345 and \$6,229 including interest of \$244 and \$914, respectively. The sales and use tax adjustment was recorded in general and administration on the consolidated statements of operations. Additional future information obtained from the applicable jurisdictions may affect the Company's estimate of its sales and use tax liability.

**Business Combinations**—The Company accounts for business combinations under the acquisition method. The cost of an acquired company is assigned to the tangible and intangible assets acquired and the liabilities assumed on the basis of their fair values at the date of acquisition. The determination of fair values of assets acquired and liabilities assumed requires management to make estimates and use valuation techniques when market values are not readily available. Any excess of purchase price over the fair value of net tangible and intangible assets acquired is allocated to goodwill. Transaction costs associated with business combinations are expensed as incurred. The Company determines the fair value of contingent acquisition consideration payable on the acquisition date using a discounted cash flow approach utilizing an appropriate discount rate. Each reporting period thereafter, the Company revalues these obligations and records increases or decreases in their fair value as adjustments to fair market value adjustment on contingent consideration in the Company's consolidated statements of operations. Changes in the fair value of the contingent acquisition consideration payable can result from adjustments to the estimated revenue forecasts included in the contingent payment calculations.

**Stock-Based Compensation**—Compensation cost relating to stock-based awards made to employees and directors is recognized in the consolidated financial statements using the Black-Scholes option-pricing model in the case of non-qualified stock option awards, and intrinsic value in the case of restricted stock awards. The Company measures the cost of such awards based on the estimated fair value of the award measured at the grant date and recognizes the expense on a straight-line basis over the requisite service period, which is the vesting period.

Determining the fair value of stock options requires the Company to make several estimates, including the volatility of its stock price, the expected life of the option, forfeiture rate, dividend yield and interest rates. The Company estimates the expected life of its options using historical internal forfeiture data. The Company estimates stock-price volatility using historical third-party quotes of Envestnet's common stock. The Company utilizes a risk-free interest rate, which is based on the yield of U.S. zero coupon securities with a maturity equal to the expected life of the options. The Company has not and does not expect to pay dividends on its common shares.

The Company is required to estimate expected forfeitures of stock-based awards at the grant date and recognize compensation cost only for those awards expected to vest. The forfeiture assumption is ultimately adjusted to the actual forfeiture rate. Therefore, changes in the forfeiture assumptions may impact the total amount of expense ultimately recognized over the vesting period. Estimated forfeitures will be reassessed in subsequent periods and may change based on new facts and circumstances.

**Convertible Notes**—On December 15, 2014, the Company issued \$172,500 of 1.75% convertible notes due December 2019 (the "2019 Notes"). In May 2018, the Company issued \$345,000 of 1.75% convertible notes due June 2023 (the "2023 Notes"). Collectively the "Convertible Notes" are accounted for in accordance with ASC 470-20. The Company has determined that the embedded conversion options in the Convertible Notes are not required to be separately accounted for as a derivative under GAAP. The Company separately accounts for the liability and equity components of Convertible Notes that can be settled in cash by allocating the proceeds from issuance between the liability component and the embedded conversion option, or equity component, in accordance with accounting for convertible debt

instruments that may be settled in cash (including partial cash settlement) upon conversion. The value of the equity component is calculated by first measuring the fair value of the liability component, using the interest rate of a similar liability that does not have a conversion feature, as of the issuance date. The difference between the proceeds from the convertible debt issuance and the amount measured as the liability component is recorded as the equity component with a corresponding discount recorded on the debt. The Company recognizes the accretion of the resulting discount using the effective interest method as part of interest expense in its consolidated statements of operations.

Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

**Non-controlling Interest**—Effective February 1, 2014, the Company formed ERS with various third parties. ERS offers advisory and technology enabled services to financial advisors and retirement plans. In exchange for a 64.5% ownership interest in ERS, the Company contributed certain assets and has agreed to fund a certain amount of the operating expenses of ERS. Primarily due to the issuance of units related to the contributions of FinaConnect, Inc. (“FinaConnect”) and Castle Rock Innovations, Inc. and the purchase of additional ERS units acquired from the former owners of Klein Decisions, Inc. the Company’s ownership in ERS increased to 81.5% as of December 31, 2016. During the year ended December 31, 2018, the Company purchased all remaining outstanding units for approximately \$6,560, which increased the Company’s ownership percentage to 100% as of December 31, 2018.

The allocation of gains and losses to the members of ERS is based on a hypothetical liquidation book value method in accordance with the ERS operating agreement. There were no losses for the years ended December 31, 2018, 2017 and 2016, reflected as non-controlling interest in the consolidated statements of operations related to ERS.

In March 2018, the Company purchased 4,000 units representing approximately 43% of the outstanding membership interests of a private company for cash consideration of \$1,333 and granted the Company the ability to appoint two members to the private Company's board of directors. The appointment of two board members gives the Company the majority of the board's voting power, therefore the Company uses the consolidation method of accounting for this investment. The private company was formed to enable financial advisors to provide insurance and income protection products to their clients.

**Recent Accounting Pronouncements**—In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers,” which amends the existing accounting standards for revenue recognition. This standard is effective for financial statements issued by public companies for annual and interim periods beginning after December 15, 2017. These changes became effective for the Company's fiscal year beginning January 1, 2018 and have been reflected in these consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases.” This update amends the requirements for assets and liabilities recognized for all leases longer than twelve months. Lessees will be required to recognize a lease liability measured on a discounted basis, which is the lessee’s obligation to make lease payments arising from the lease, and a right-of-use (“ROU”) asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. This standard will be effective for financial statements issued by public companies for the annual and interim periods beginning after December 15, 2018 and will be applied using a modified retrospective approach with optional practical expedients. Early adoption of the standard is permitted. The Company will adopt the new standard on its effective date of January 1, 2019 using the cumulative-effect adjustment transition method with certain available transitional practical expedients. The Company has substantially completed the implementation of key changes to internal controls over financial reporting to allow it to timely compile the information needed to account for transactions under this new guidance.

The standard will have a material impact on our consolidated balance sheets and related disclosures but will not have a material impact on our consolidated income statements. The most significant impact will be the recognition of ROU assets and lease liabilities for operating leases.

The Company currently estimates adoption of ASU 2016-02 will result in the recognition of ROU assets and lease liabilities for operating leases of approximately \$66,000 and \$84,000, respectively, as of January 1, 2019. The difference between the ROU assets and lease liabilities primarily represents the existing deferred rent liabilities, resulting from historical straight-lining of operating leases, which was reclassified upon adoption to reduce the measurement of the ROU assets.

In March 2016, The FASB issued ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting”. This update is intended to reduce the cost and complexity of accounting for share-based payments; however, some changes may also increase volatility in reported earnings. Under the new guidance, all excess tax benefits and deficiencies will

be recorded as an income tax benefit or expense in the income statement and excess tax benefits will be recorded as an operating activity in the statements of cash flows. The new guidance also allows withholding up to the maximum individual statutory tax rate without classifying the awards as a liability. The cash paid to satisfy the statutory income tax withholding obligation will be classified as a financing activity in the statements of cash flows. Lastly, the update allows forfeitures to be estimated or recognized when they occur. The requirements for the excess tax effects related to share-based payments at settlement must be applied on a prospective basis, and the other requirements under this standard are to be applied on a retrospective basis. This standard will be effective for financial statements issued by public companies for annual and interim periods beginning after December 15, 2016. These changes became effective for the Company's fiscal year beginning January 1, 2017 and have been reflected in

Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

these consolidated financial statements. As a result of the retrospective adoption of ASU 2016-09, for the year ended December 31, 2016 net cash provided by operating activities increased by \$4,455 with a corresponding offset to net cash used in financing activities. The Company did not elect an accounting policy change to record forfeitures as they occur and will continue to estimate forfeitures at each period.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments (Topic 326)". This update significantly changes the way that entities will be required to measure credit losses. The new standard requires that entities estimate credit losses based upon an "expected credit loss" approach rather than the "incurred loss" approach, which is currently used. The new approach will require entities to measure all expected credit losses for financial assets based on historical experience, current conditions, and reasonable forecasts of collectability. The change in approach is anticipated to impact the timing of recognition of credit losses. This ASU will become effective for beginning January 1, 2020. Early adoption is permitted for fiscal years beginning January 1, 2019. The Company is currently evaluating the potential impact of this guidance on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments," which clarifies eight specific cash flow issues in an effort to reduce diversity in practice in how certain transactions are classified within the statement of cash flows. This standard is effective for financial statements issued by public companies for annual and interim periods beginning after December 15, 2017. These changes became effective for the Company's fiscal year beginning January 1, 2018 and have been reflected in these consolidated financial statements. Retrospective adoption of ASU 2016-15 did not have a material impact on the Company's presentation of the consolidated statements of cash flows

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230) – Restricted Cash," which amends ASC 230 to provide clarifying guidance on the classification and presentation of restricted cash in the statement of cash flows. Additional disclosure is required to reconcile between the statement of financial position and the statement of cash flows when the statement of financial position includes more than one line item for cash, cash equivalents, restricted cash, and restricted cash equivalents. This standard is effective for financial statements issued by public companies for annual and interim periods beginning after December 15, 2017. These changes became effective for the Company's fiscal year beginning January 1, 2018 and included \$326 and \$2,148 of restricted cash in the total of cash, cash equivalents and restricted cash in the consolidated balance sheets at December 31, 2018 and 2017, respectively. A reconciliation of restricted cash for each period is included within this footnote.

In January 2017, the FASB issued ASU 2017-01, "Business Combinations: Clarifying the Definition of a Business (Topic 805)," which provides a new framework for determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This standard is effective for financial statements issued by public companies for annual and interim periods beginning after December 15, 2017. These changes became effective for the Company's fiscal year beginning January 1, 2018 and did not have a material impact to these consolidated financial statements. This standard will be applied to all future business acquisition and disposal transactions.

In January 2017, the FASB issued ASU 2017-04, "Intangibles—Goodwill and Other (Topic 350)," which removes step two from the goodwill impairment test. As a result, an entity should perform its annual goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting units' fair value. This standard will be effective for financial statements issued by public companies for annual and interim periods beginning after December 15, 2019. Early adoption is permitted. The Company has adopted this standard as of April 1, 2017, however it did not have a material impact on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, “Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting.” This update clarifies which changes to the terms and conditions of a share-based payment award require an entity to apply modification accounting. Specifically, an entity would not apply modification account if the fair value, vesting conditions, and classification as an equity or liability instrument are the same before and after the modification. This standard is effective for financial statements issued by public companies for annual and interim periods beginning after December 15, 2017. These changes became effective for the Company’s fiscal year beginning January 1, 2018. This standard will be applied to all future modifications of share-based payment awards.

Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

In June 2018, the FASB issued ASU 2018-07, “Compensation – Stock Compensation (Topic 718): Improvements to Non-employee Share-Based Payment Accounting.” This update clarifies the accounting for share-based payment transactions for acquiring goods and services from non-employees. Specifically, the update aligns the accounting for payments to non-employees to match the accounting for payments to employees, no longer accounting for these transactions differently. This standard is effective for financial statements issued by public companies for annual and interim periods beginning after December 15, 2018. Early adoption of the standard is permitted. This standard will be applied to all future non-employee share-based payments.

In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement.” This update aims to improve the effectiveness of disclosure requirements on fair value measurement as part of the disclosure framework project. This standard is effective for financial statements issued by public companies for annual and interim periods beginning after December 15, 2019. Early adoption of the standard is permitted. The Company is currently evaluating the potential impact of this guidance on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, “Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force).” This update is intended to guide entities in evaluating the accounting for fees paid by a customer in a cloud computing arrangement by providing guidance for determining when the arrangement includes a software license. This standard is effective for financial statements issued by public companies for annual and interim periods beginning after December 15, 2019. Early adoption of the standard is permitted. The Company has elected to early adopt this standard beginning January 1, 2019.

### 3. Business Acquisitions

The following acquisitions are included within the Envestnet segment, except for Wheelhouse Analytics LLC (“Wheelhouse”) and the private company, which are included within the Envestnet | Yodlee segment.

FinaConnect, Inc.

On February 1, 2016, Envestnet acquired all of the outstanding shares of capital stock of FinaConnect. FinaConnect is a software as a service (SaaS) platform that provides reporting and practice management capabilities to financial professionals servicing the retirement plan market and is the technology platform supporting the ERS service offering. FinaConnect is included in the Envestnet segment.

On May 1, 2016, the Company combined the assets of FinaConnect with ERS. In addition to adding the client list serviced directly by FinaConnect, the goodwill arising from the acquisition represents the advantage of ownership of the technology powering the ERS solution, removal of ongoing licensing payments made to FinaConnect and the full integration of the knowledge and experience of the FinaConnect workforce. The goodwill is deductible for income tax purposes.

In connection with the acquisition of FinaConnect, the Company paid upfront cash consideration of \$6,425 and Company is required to pay contingent consideration of four times the incremental revenue on a certain book of business for the two years subsequent to the acquisition date, not to exceed a total amount of \$3,500.

As of December 31, 2016, the estimated fair market value of contingent consideration liability for FinaConnect increased from \$1,929 to \$2,286. As a result, the Company recorded a fair market value adjustment of \$357 which is recognized in general and administration in the consolidated statements of operations. During 2017, the Company paid contingent consideration in the amount of \$2,286 for the first year earnout. During 2018, the Company did not pay any contingent consideration for the second year earnout.



Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

The consideration transferred in the acquisition was as follows:

Cash consideration	\$6,425
Contingent consideration liability	1,929
Working capital adjustment	269
Cash acquired	(1 )
Total	\$8,622

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

Total tangible assets acquired	\$430
Total liabilities assumed	(400 )
Identifiable intangible assets	3,800
Goodwill	4,792
Total net assets acquired	\$8,622

A summary of estimated intangible assets acquired, estimated useful lives and amortization methods is as follows:

	Estimated Amount	Estimated Useful Life in Years	Amortization Method
Customer list	\$ 2,800	12	Accelerated
Proprietary technology	900	5	Straight-line
Trade names and domains	100	2	Straight-line
Total	\$ 3,800		

The results of FinaConnect's operations are included in the consolidated statements of operations beginning February 1, 2016, and are not considered material to the Company's results of operations.

For the years ended December 31, 2018, 2017 and 2016, acquisition related costs for FinaConnect totaled \$0, \$135 and \$116, respectively, and are included in general and administration in the consolidated statements of operations.

#### Wheelhouse Analytics LLC

On October 3, 2016, the Company acquired all of the issued and outstanding membership interests of Wheelhouse. Wheelhouse is a technology company that provides data analytics, mobile sales solutions and online education tools to financial advisors, asset managers and enterprises. Wheelhouse is included in the Envestnet | Yodlee segment.

The Company acquired Wheelhouse to be integrated with Yodlee's industry-leading data and analytics solutions to strengthen Envestnet's data-driven insights to financial advisors, asset managers and enterprises enabling them to better manage their businesses and client relationships and deliver better outcomes to their clients. Envestnet expects to deeply integrate Wheelhouse's tools, delivering robust online dashboards and reporting that provides actionable intelligence.

In connection with the acquisition of Wheelhouse, the Company paid cash consideration of \$13,299 and is required to pay contingent consideration, with the aggregate amount not to exceed \$4,000, and certain holdbacks upon release.

Changes to the estimated fair value of the contingent consideration, if any, will be recognized in earnings of the Company. During 2018, Company paid contingent consideration in the amount of \$2,193.

Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

The consideration transferred in the acquisition was as follows:

Cash consideration	\$13,299
Contingent consideration liability	2,364
Purchase consideration liability	887
Working capital adjustment	110
Cash acquired	(80 )
Total	\$16,580

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

Total tangible assets acquired	\$385
Total liabilities assumed	(1,420 )
Identifiable intangible assets	6,600
Goodwill	11,015
Total net assets acquired	\$16,580

A summary of estimated intangible assets acquired, estimated useful lives and amortization method is as follows:

	Estimated	Amortization	
	Amount	Useful Life in Years	Method
Customer list	\$4,000	15	Accelerated
Proprietary technology	2,500	6	Straight-line
Trade names and domains	100	2	Straight-line
Total	\$6,600		

The results of Wheelhouse's operations are included in the consolidated statements of operations beginning October 3, 2016, and are not considered material to the Company's results of operations.

For the years ended December 31, 2018, 2017 and 2016, acquisition related costs for Wheelhouse totaled \$1,763, \$874 and \$383, respectively, and are included in general and administration in the consolidated statements of operations.

## FolioDynamix

On January 2, 2018, the Company acquired all of the issued and outstanding membership interests of FolioDynamics Holdings, Inc. ("FolioDynamix") through a merger of FolioDynamix with and into a wholly owned subsidiary of Envestnet.

FolioDynamix provides financial institutions, RIAs, and other wealth management clients with an end-to-end technology solution paired with a suite of advisory tools including model portfolios, research and overlay management services. FolioDynamix is included in the Envestnet segment.

The Company acquired FolioDynamix to add complementary trading tools as well as commission and brokerage support to Envestnet's existing suite of offerings. Envestnet expects to integrate the technology and operations of

FolioDynamix into the Company's wealth management channel, enabling the Company to further leverage its operating scale and data analytics capabilities.

The Company funded the acquisition with a combination of cash on the Company's balance sheet, purchase consideration liabilities and borrowings under its revolving credit facility.

Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

The consideration transferred in the acquisition was as follows:

	Measurement		
	Preliminary Estimate	Period Adjustments	Revised Estimate
Cash consideration	\$ 187,580	\$ 12,297	\$ 199,877
Purchase consideration liability	12,297	(12,297 )	—
Working capital and other adjustments	(3,893 )	(2,849 )	(6,742 )
Total	\$ 195,984	\$ (2,849 )	\$ 193,135

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

	Measurement		
	Preliminary Estimate	Period Adjustments	Revised Estimate
Cash and cash equivalents	\$ 4,876	\$ —	\$ 4,876
Accounts receivable	4,962	—	4,962
Prepaid expenses and other current assets	1,600	2,173	3,773
Property and equipment, net	927	—	927
Other non-current assets	441	—	441
Identifiable intangible assets	117,700	18,000	135,700
Goodwill	97,248	(17,357 )	79,891
Total assets acquired	227,754	2,816	230,570
Accounts payable	(5,358 )	—	(5,358 )
Accrued expenses	(7,173 )	(734 )	(7,907 )
Deferred tax liability	(18,245 )	(5,055 )	(23,300 )
Deferred revenue	(930 )	124	(806 )
Other non-current liabilities	(64 )	—	(64 )
Total liabilities assumed	(31,770 )	(5,665 )	(37,435 )
Total net assets acquired	\$ 195,984	\$ (2,849 )	\$ 193,135

The goodwill arising from the acquisition represents the expected synergistic benefits of the transaction, primarily related to lower future operating expenses and the knowledge and experience of the workforce in place. The goodwill is not deductible for income tax purposes. During 2018, after obtaining additional information, the estimated fair value of the customer list intangible was revised due to a change in the assumed attrition rate of the customer base acquired.

A summary of estimated identifiable intangible assets acquired, estimated useful lives and amortization method is as follows:

	Measurement			Estimated Useful Life in Years	Amortization Method
	Preliminary Estimate	Period Adjustments	Revised Estimate		
Customer list	\$ 95,000	\$ 18,500	\$ 113,500	13	Accelerated
Proprietary technology	18,000	(500 )	17,500	5	Straight-line
Trade names and domains	4,700	—	4,700	6	Straight-line

Total	\$ 117,700	\$ 18,000	\$ 135,700
-------	------------	-----------	------------

Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

The results of FolioDynamix's operations are included in the consolidated statements of operations beginning January 2, 2018. FolioDynamix's revenues for the year ended December 31, 2018 totaled \$68,122. FolioDynamix's pre-tax loss for the year ended December 31, 2018 totaled \$13,777. The pre-tax loss includes estimated acquired intangible asset amortization of \$17,908 for the year ended December 31, 2018.

For the year ended December 31, 2018, acquisition related costs for FolioDynamix totaled \$1,557, and are included in general and administration expenses. The Company may incur additional acquisition related costs in 2019.

## Acquisition of private company

In August 2018, the Company acquired all of the issued and outstanding membership interests of a private technology company that provides market research analytics. In connection with this acquisition, the Company paid estimated net consideration of \$6,585, subject to certain closing and post-closing adjustments.

The preliminary estimated fair values of the assets acquired and liabilities assumed at the date of acquisition are not material. As a result the remaining balance was allocated to goodwill in the amount of \$6,885. The goodwill is not deductible for income tax purposes.

## Unaudited pro forma results for Envestnet, Inc. giving effect to the FolioDynamix acquisition

The following pro forma financial information presents the combined results of operations of Envestnet and FolioDynamix for the year ended December 31, 2017. The pro forma financial information presents the results as if the acquisition had occurred as of the beginning of 2017. The results of the private company acquisition are not included in the pro forma financial information presented below as they were not considered material to the Company's results of operations.

The unaudited pro forma results presented primarily include adjustments for amortization charges for acquired intangible assets, stock-based compensation expense, transaction related expenses and interest expense.

Pro forma financial information is presented for informational purposes and is not indicative of the results of operations that would have been achieved if the acquisitions had taken place as of the beginning of 2017.

	Year Ended December 31, 2017
Revenues	\$ 724,618
Net loss	(21,194 )
Net loss per share:	
Basic	\$ (0.48 )
Diluted	\$ (0.48 )

## 4. Revenue

On January 1, 2018, the Company adopted ASU 2014-09 and all subsequent ASUs that modified Topic 606 ("ASC 606" or "new revenue standard") using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. The Company recognized the cumulative effect of the initial application of the new

revenue standard as an adjustment to the opening balance of accumulated deficit. The comparative information has not been restated and will continue to be reported under the accounting standards in effect for those periods. The Company does not expect the adoption of the new revenue standard to have a material impact to the results of operations on an ongoing basis.

The majority of our revenues continue to be recognized when services are provided. The adoption of the new revenue standard primarily impacts timing of revenue recognition for initial implementation services, deferral of incremental direct costs in obtaining contracts with customers and gross versus net presentation related to certain third party manager agreements.



Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

The cumulative effect of the changes made to the Company's consolidated balance sheets as of January 1, 2018 for the adoption of the new revenue standard was as follows:

	Balance at December 31, 2017	Cumulative Catch-up Adjustments	Balance at January 1, 2018
<b>Balance Sheets</b>			
<b>Assets:</b>			
Other non-current assets	\$ 17,176	\$ 5,315	\$ 22,491
<b>Liabilities:</b>			
Deferred revenue, current	21,246	(1,122 )	20,124
Deferred revenue, non-current	12,047	(2,780 )	9,267
<b>Equity:</b>			
Accumulated deficit	(73,854 )	9,217	(64,637 )

In accordance with the new revenue standard requirements, the impact of adoption on the Company's consolidated statements of operations and consolidated balance sheets was as follows:

	Year Ended December 31, 2018		
	As Reported	Without Adoption of ASC 606	Effect of Change Higher/(Lower)
<b>Statements of Operations</b>			
<b>Revenues:</b>			
Asset-based	\$481,233	\$495,646	\$ (14,413 )
Subscription-based	295,467	295,467	—
Total recurring revenues	776,700	791,113	(14,413 )
Professional services and other revenues	35,663	35,840	(177 )
Total revenues	812,363	826,953	(14,590 )
<b>Operating expenses:</b>			
Cost of revenues	263,400	277,813	(14,413 )
Compensation and benefits	317,188	318,887	(1,699 )
Total operating expenses	798,198	814,310	(16,112 )
Income from operations	14,165	12,643	1,522
Net income	4,010	2,488	1,522
Net income attributable to Envestnet, Inc.	\$5,755	\$4,233	\$ 1,522

Table of Contents

Investnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

	At December 31, 2018		
	As Reported	Without Adoption of ASC 606	Effect of Change Higher/(Lower)
<b>Balance Sheets</b>			
<b>Assets:</b>			
Fees receivable, net	\$68,004	\$67,085	\$ 919
Other non-current assets	25,298	18,284	7,014
<b>Liabilities:</b>			
Accounts payable	19,567	18,648	919
Deferred revenue, current	23,988	24,577	(589 )
Deferred revenue, non-current	6,910	10,046	(3,136 )
<b>Equity:</b>			
Accumulated deficit	(58,882 )	(69,621 )	10,739

The impact of adoption on the Company's consolidated statements of cash flows is immaterial.

## Disaggregation of revenue

The following table presents the Company's revenues disaggregated by major source:

	Year Ended December 31, 2018		
	Investnet		Consolidated <sup>(1)</sup>
	Investnet <sup>(1)</sup>	Yodlee <sup>(1)</sup>	
<b>Revenues:</b>			
Asset-based	\$481,233	\$—	\$ 481,233
Subscription-based	138,372	157,095	295,467
Total recurring revenues	619,605	157,095	776,700
Professional services and other revenues	13,000	22,663	35,663
Total revenues	\$632,605	\$ 179,758	\$ 812,363
	Year Ended December 31, 2017		
	Investnet		Consolidated <sup>(1)</sup>
	Investnet <sup>(1)</sup>	Yodlee <sup>(1)</sup>	
<b>Revenues:</b>			
Asset-based	\$410,016	\$—	\$ 410,016
Subscription-based	106,048	139,819	245,867
Total recurring revenues	516,064	139,819	655,883
Professional services and other revenues	11,841	15,955	27,796
Total revenues	\$527,905	\$ 155,774	\$ 683,679



Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

	Year Ended December 31, 2016		
	Envestnet		
	Envestnet <sup>(1)</sup>	Yodlee <sup>(1)</sup>	Consolidated <sup>(1)</sup>
Revenues:			
Asset-based	\$352,498	\$—	\$ 352,498
Subscription-based	84,340	113,785	198,125
Total recurring revenues	436,838	113,785	550,623
Professional services and other revenues	10,794	16,747	27,541
Total revenues	\$447,632	\$ 130,532	\$ 578,164

(1) As noted above, prior period amounts have not been adjusted under the modified retrospective method.

The following table presents the Company's revenues disaggregated by geography, based on the billing address of the customer:

	Year Ended December 31,		
	2018	2017 <sup>(1)</sup>	2016 <sup>(1)</sup>
United States	\$778,565	\$617,835	\$519,998
International <sup>(2), (3)</sup>	33,798	65,844	58,166
Total	\$812,363	\$683,679	\$578,164

(1) As noted above, prior period amounts have not been adjusted under the modified retrospective method.

(2) No foreign country accounted for more than 10% of total revenues.

(3) Upon adoption of ASU 2014-09, gross revenue recognition changed to net revenue recognition for one customer.

One customer accounted for more than 10% of the Company's total revenues:

	Year Ended		
	December 31,		
	2018	2017	2016
Fidelity	17%	17%	15%

Remaining performance obligations

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) as of December 31, 2018:

Years ending December 31,	
2019	\$195,913
2020	127,516
2021	76,828
2022	56,378
2023	22,496
Thereafter	36,322
Total	\$515,453

Only fixed consideration from significant contracts with customers is included in the amounts presented above.

The Company has applied the practical expedients and exemption and does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less; (ii) contracts for which the Company recognizes revenue at the amount to which it has the right to invoice for services performed; and (iii) contracts for which the variable consideration is allocated entirely to a wholly unsatisfied performance obligations or to a wholly unsatisfied promise to transfer a distinct service that forms part of a single performance obligation.

Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

## Contract balances

The opening and closing balances of the Company's billed receivables, unbilled receivables, and deferred revenues are as follows:

	Receivables, which are included in Fees receivable, net	Unbilled receivables, which are included in Fees receivable, net	Deferred Revenue (current)	Deferred Revenue (non-current)
Opening balance as of January 1, 2018	\$ 36,605	\$ 13,229	\$ 20,124	\$ 9,267
Increase/(decrease), net	14,882	3,288	3,864	(2,357 )
Ending balance as of December 31, 2018	\$ 51,487	\$ 16,517	\$ 23,988	\$ 6,910

The increase in receivables is primarily a result of timing of payments for asset-based and subscription-based revenues relative to the year ended December 31, 2018 and the acquisition of FolioDynamix.

The increase in unbilled receivables is primarily driven by revenue recognized in excess of billings related to asset-based services during the year ended December 31, 2018.

The increase in deferred revenue is primarily the result of an increase in deferred revenue related to subscription-based services during the year ended December 31, 2018, most of which will be recognized over the course of the next twelve months.

The amount of revenue recognized that was included in the opening deferred revenue balance was \$18,620 for the year ended December 31, 2018. The majority of this revenue consists of subscription-based revenue and professional services arrangements. The amount of revenue recognized from performance obligations satisfied in prior periods was not material.

## Deferred sales incentive compensation

Deferred sales incentive compensation was \$7,014 as of December 31, 2018. Amortization expense for the deferred sales incentive compensation was \$2,132 for the year ended December 31, 2018. No significant impairment loss for capitalized costs was recorded during the period.

The Company has applied the practical expedient to recognize the incremental costs of obtaining contracts as an expense when incurred if the amortization period would have been one year or less. These costs are included in compensation and benefits on the consolidated statements of operations.

## 5. Cost of Revenues

The following summarizes cost of revenues by revenue category:

	Year Ended December 31,		
	2018	2017	2016
Asset-based	\$232,145	\$194,894	\$160,842

Edgar Filing: ENVESTNET, INC. - Form 10-K

Subscription-based	25,192	19,818	16,113
Professional services and other	6,063	4,325	3,635
Total	\$263,400	\$219,037	\$180,590

Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

## 6. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following:

	December 31,	
	2018	2017
Prepaid technology	\$6,766	\$1,843
Non-income tax receivable	5,628	2,704
Prepaid outside information services	1,515	1,395
Restricted cash	158	2,000
Income tax receivable	—	1,684
Other	9,490	9,844
Total	\$23,557	\$19,470

## 7. Property and Equipment

Property and equipment consists of the following:

	Estimated Useful Life	December 31,	
		2018	2017
Cost:			
Computer equipment and software	3 years	\$64,346	\$56,192
Leasehold improvements	Shorter of the lease term or useful life of the asset	28,191	23,192
Office furniture and fixtures	3-7 years	9,291	8,110
Other office equipment	3-5 years	5,577	2,052
		107,405	89,546
Less: accumulated depreciation and amortization		(62,414 )	(53,637 )
Total property and equipment, net		\$44,991	\$35,909

During 2018 and 2017, the Company retired property and equipment that was no longer in service for the Envestnet segment in the amounts of \$5,984 and \$7,180, respectively. During 2018 and 2017, the Company retired property and equipment that were no longer in service for the Envestnet | Yodlee segment in the amounts of \$5,387 and \$532, respectively. The following table presents the cost amounts and related accumulated depreciation written off by category:

	Year Ended December 31, 2018		Year Ended December 31, 2017	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Computer equipment and software	\$10,733	\$ (10,709 )	\$7,528	\$ (7,523 )
Office furniture and fixtures	32	(32 )	184	(113 )
Other office equipment	309	(288 )	—	—
Leasehold improvements	297	(269 )	—	—
Total property and equipment retirements	\$11,371	\$ (11,298 )	\$7,712	\$ (7,636 )

Depreciation and amortization expense was as follows:



	Year Ended December 31,		
	2018	2017	2016
Depreciation and amortization expense	\$15,737	\$15,383	\$14,838

Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

## 8. Internally Developed Software

Internally developed software consists of the following:

	Estimated Useful Life	December 31,	
		2018	2017
Internally developed software	5 years	\$70,410	\$46,342
Less: accumulated amortization		(32,201 )	(24,168 )
Internally developed software, net		\$38,209	\$22,174

Amortization expense was as follows:

	Year Ended December 31,		
	2018	2017	2016
Amortization expense	\$8,033	\$5,310	\$3,646

## 9. Goodwill and Intangible Assets

Changes in the carrying amount of goodwill were as follows:

	Envestnet	Envestnet   Yodlee	Total
Balance at December 31, 2016	\$163,751	\$268,185	\$431,936
Purchase accounting adjustments - Wheelhouse	—	457	457
Foreign currency	—	562	562
Balance at December 31, 2017	163,751	269,204	432,955
FolioDynamix acquisition	79,891	—	79,891
Private company acquisition	—	6,885	6,885
Foreign currency	—	(796 )	(796 )
Other	167	—	167
Balance at December 31, 2018	\$243,809	\$275,293	\$519,102

Intangible assets consist of the following:

	Estimated Useful Life	December 31, 2018		December 31, 2017	
		Gross Carrying Amount	Net Accumulated Amortization	Gross Carrying Amount	Net Accumulated Amortization
Customer lists	7-15 years	\$361,020	\$(102,077 )	\$259,350	\$(78,482 )
Proprietary technologies	4-8 years	66,746	(36,151 )	57,377	(31,067 )
Trade names	2-7 years	27,990	(12,352 )	24,840	(9,701 )
Backlog	4 years	11,000	(10,935 )	11,000	(10,586 )
Total intangible assets		\$466,756	\$(161,515 )	\$305,241	\$(129,836 )

During 2018, the Company wrote off fully amortized intangible assets in the amount of \$22,177, including customer lists, trade names and proprietary technologies. The Company did not write off any intangible assets in 2017.



Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

Amortization expense was as follows:

	Year Ended December 31,		
	2018	2017	2016
Amortization expense	\$53,856	\$42,127	\$45,515

Future amortization expense of the intangible assets as of December 31, 2018, is expected to be as follows:

Years ending December 31:

2019	\$48,334
2020	44,380
2021	35,744
2022	33,266
2023	24,920
Thereafter	118,597
Total	\$305,241

## 10. Other Non-Current Assets

Other non-current assets consist of the following:

	December 31,	
	2018	2017
Deferred sales incentive compensation	\$7,014	\$—
Assets to fund deferred compensation liability	6,346	5,185
Lease and other deposits	4,341	4,906
Investments in private companies	2,862	2,731
Unamortized issuance costs on revolving credit facility	2,251	3,106
Other	2,484	1,248
Total	\$25,298	\$17,176

The Company owns 538,776 common units in a privately held company at a historical purchase price of \$1,250. The Company uses the cost method of accounting for this investment. This investment is included in the Envestnet segment.

In November 2016, the Company purchased 1,500,000 Class A units representing 21.4% of the outstanding membership interests of a privately held company for cash consideration of \$1,500. In September 2017, the Company purchased an additional 1,450,000 Class A units in this privately held company for cash consideration of \$1,450. The additional investment increased the Company's ownership interest to 34.5%. The Company uses the equity method of accounting to record its portion of this privately held company's net income or loss on a one quarter lag from the actual results of operations due to our less than 50% ownership and lack of control and does not otherwise exercise control over the significant economic decisions of the privately held company. The Company's share in the loss of the privately held company was \$1,146 and \$1,469 during the years ended December 31, 2018 and 2017, respectively, and is included in other expense, net on the consolidated statements of operations. This investment is included in the Envestnet segment.

In November 2018, the Company acquired approximately 27% of the outstanding membership interests of a privately held company for cash consideration of \$1,200. In accordance with the agreement, the Company is required to make future capital contributions of \$1,200 and \$1,100 in 2019 and 2020, respectively, subject to certain conditions. The Company uses the equity method of accounting to record its portion of this privately held company's net income or loss on a one quarter lag from the actual results of operations. The Company uses the equity method of accounting to record its portion of this privately held company's net income or loss on a one quarter lag from the actual results of operations due to our less than 50% ownership and

100

---

Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

lack of control and does not otherwise exercise control over the significant economic decisions of the privately held company. This investment is included in the Envestnet segment.

## 11. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consist of the following:

	December 31,	
	2018	2017
Accrued investment manager fees	\$50,635	\$39,324
Accrued compensation and related taxes	50,598	43,724
Sales and use tax payable	9,733	9,037
Accrued professional services	4,517	4,985
Accrued transaction costs	4,543	—
Definite consideration	—	1,250
Other accrued expenses	13,272	7,577
Total	\$133,298	\$105,897

## 12. Debt

The Company's outstanding debt obligations as of December 31, 2018 and 2017 were as follows:

	December 31,	
	2018	2017
Convertible Notes due 2019	\$172,500	\$172,500
Unaccreted discount on Convertible Notes due 2019	(5,890 )	(11,677 )
Unamortized issuance costs on Convertible Notes due 2019	(899 )	(1,833 )
Convertible Notes due 2019 carrying value	\$165,711	\$158,990
Convertible Notes due 2023	\$345,000	\$—
Unaccreted discount on Convertible Notes due 2023	(42,641 )	—
Unamortized issuance costs on Convertible Notes due 2023	(7,634 )	—
Convertible Notes due 2023 carrying value	\$294,725	\$—
Revolving credit facility balance	\$—	\$81,168

Interest expense on the Convertible Notes due 2019 and 2023 and the Second Amended and Restated Credit agreement was comprised of the following:

	Year Ended December 31,		
	2018	2017	2016
Coupon interest	\$6,650	\$3,019	\$3,019
Amortization of issuance costs	2,771	3,279	2,875
Accretion of debt discount	11,134	5,472	5,237
Interest on revolving credit facility	3,994	4,153	5,128
Undrawn and other fees	654	424	341

Total \$25,203 \$16,347 \$16,600

101

---

Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

Convertible Notes due 2019

In 2014, the Company issued \$172,500 of Convertible Notes due 2019. Net proceeds from the offering were \$166,967. The Convertible Notes due 2019 bear interest at a rate of 1.75% per annum payable semiannually in arrears on June 15 and December 15 of each year, beginning on June 15, 2015.

In connection with the issuance of the Convertible Notes due 2019, the Company incurred \$4,651 of issuance costs in 2014, which are presented net in current debt on the consolidated balance sheets. These costs are being amortized and are recorded as additional interest expense over the life of the Convertible Notes due 2019.

The Convertible Notes due 2019 are general unsecured obligations, subordinated in right of payment to our obligations under our Credit Agreement. The Convertible Notes due 2019 rank equally in right of payment with all of the Company's existing and future senior indebtedness and will be senior in right of payment to any of the Company's future subordinated indebtedness. The Convertible Notes due 2019 will be structurally subordinated to the indebtedness and other liabilities of any of our subsidiaries, other than to the extent the Convertible Notes due 2019 are guaranteed in the future by our subsidiaries as described in the indenture and will be effectively subordinated to and future secured indebtedness to the extent of the value of the assets securing such indebtedness. Certain of our subsidiaries guarantee our obligations under our Credit Agreement.

Upon the occurrence of a "fundamental change", as defined in the indenture, the holders may require the Company to repurchase all or a portion of the Convertible Notes due 2019 for cash at 100% of the principal amount of the Convertible Notes due 2019 being purchased, plus any accrued and unpaid interest.

The Convertible Notes due 2019 are convertible into shares of the Company's common stock under certain circumstances prior to maturity at a conversion rate of 15.9022 shares per one thousand principal amount of the Convertible Notes due 2019, which represents a conversion price of \$62.88 per share, subject to adjustment under certain conditions. Holders may convert their Convertible Notes due 2019 at their option at any time prior to the close of business on the business day immediately preceding July 1, 2019, only under the following circumstances: (a) during any calendar quarter commencing after the calendar quarter ending on March 31, 2015 (and only during such calendar quarter), if the last reported sale price of our common stock, for at least 20 trading days (whether or not consecutive) in the period of 30 consecutive trading days ending on the last trading day of the calendar quarter immediately preceding the calendar quarter in which the conversion occurs, is more than 130% of the conversion price of the Convertible Notes due 2019 in effect on each applicable trading day; (b) during the five consecutive business-day period following any five consecutive trading-day period in which the trading price per one thousand principal amount of the Convertible Notes due 2019 for each such trading day was less than 98% of the last reported sale price of our common stock on such date multiplied by the then-current conversion rate; or (c) upon the occurrence of specified corporate events as defined in the indenture.

Upon conversion, the Company may pay cash, shares of the Company's common stock or a combination of cash and stock, as determined by the Company in its discretion. The Company's stated policy is to settle the debt component of the Convertible Notes due 2019 at least partially or wholly in cash. This policy is based both on the Company's intent and the Company's ability to settle these instruments in cash.

The Company has separately accounted for the liability and equity components of the Convertible Notes due 2019 by allocating the proceeds from issuance of the Convertible Notes due 2019 between the liability component and the embedded conversion option, or equity component. This allocation was done by first estimating an interest rate at the



time of issuance for similar notes that do not include the embedded conversion option. The Company allocated \$26,618 to the equity component, net of offering costs of \$882. The Company recorded a discount on the Convertible Notes due 2019 of \$27,500 which will be accreted and recorded as additional interest expense over the life of the Convertible Notes due 2019. During 2018, 2017 and 2016, the Company recognized \$5,690, \$5,472 and \$5,237, respectively, in accretion related to the discount. The effective interest rate of the liability component of the Convertible Notes due 2019 is equal to the stated interest rate plus the accretion of original issue discount. The effective interest rate on the liability component of the Convertible Notes due 2019 for the years ended December 31, 2018, 2017 and 2016 was approximately 6%.

Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

Convertible Notes due 2023

In May 2018, the Company issued \$345,000 of Convertible Notes due 2023. Net proceeds from the offering were \$335,018. The Convertible Notes due 2023 bear interest at a rate of 1.75% per annum payable semiannually in arrears on June 1 and December 1 of each year, beginning on December 1, 2018.

In connection with the issuance of the Convertible Notes due 2023, the Company incurred \$8,593 of issuance costs in 2018, which are presented net in non-current debt on the consolidated balance sheets. These costs are being amortized and are recorded as additional interest expense over the life of the Convertible Notes due 2023.

The Convertible Notes due 2023 are general unsecured senior obligations, subordinated in right of payment to our obligations under our Credit Agreement. The Convertible Notes due 2023 rank equally in right of payment with all of the Company's existing and future senior indebtedness and will be senior in right of payment to any of the Company's future subordinated obligations. The Convertible Notes due 2023 will be structurally subordinated to the indebtedness and other liabilities of any of our subsidiaries, other than our wholly owned subsidiary, Envestnet Asset Management, Inc., which will fully and unconditionally guarantee the notes on an unsecured basis, and other than to the extent the Convertible Notes due 2023 are guaranteed in the future by any of our other subsidiaries as described in the indenture and will be effectively subordinated to and future secured indebtedness to the extent of the value of the assets securing such indebtedness. Certain of our subsidiaries guarantee our obligations under our Credit Agreement.

Upon the occurrence of a "fundamental change", as defined in the indenture, the holders may require the Company to repurchase all or a portion of the Convertible Notes due 2023 for cash at 100% of the principal amount of the Convertible Notes due 2023 being purchased, plus any accrued and unpaid interest.

The Convertible Notes due 2023 are convertible into shares of the Company's common stock under certain circumstances prior to maturity at a conversion rate of 14.6381 shares per one thousand principal amount of the Convertible Notes due 2023, which represents a conversion price of \$68.31 per share, subject to adjustment under certain conditions. Holders may convert their Convertible Notes due 2023 at their option at any time prior to the close of business on the business day immediately preceding December 15, 2022, only under the following circumstances: (a) during any calendar quarter commencing after the calendar quarter ending on June 30, 2018 (and only during such calendar quarter), if the last reported sale price of our common stock, for at least 20 trading days (whether or not consecutive) in the period of 30 consecutive trading days ending on the last trading day of the calendar quarter immediately preceding the calendar quarter in which the conversion occurs, is more than 130% of the conversion price of the Convertible Notes due 2023 in effect on each applicable trading day; (b) during the five consecutive business-day period following any five consecutive trading-day period in which the trading price per one thousand principal amount of the Convertible Notes due 2023 for each such trading day was less than 98% of the last reported sale price of our common stock on such date multiplied by the then-current conversion rate; (c) if we call any or all of the Convertible Notes due 2023 for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date; or (d) upon the occurrence of specified corporate events as defined in the indenture.

Upon conversion, the Company may pay cash, shares of the Company's common stock or a combination of cash and stock, as determined by the Company in its discretion. The Company's stated policy is to settle the debt component of the Convertible Notes due 2023 at least partially or wholly in cash. This policy is based both on the Company's intent and the Company's ability to settle these instruments in cash.

The Company has separately accounted for the liability and equity components of the Convertible Notes due 2023 by allocating the proceeds from issuance of the Convertible Notes due 2023 between the liability component and the embedded conversion option, or equity component. This allocation was done by first estimating an interest rate at the time of issuance for similar notes that do not include the embedded conversion option. The Company allocated \$46,611 to the equity component, net of offering costs of \$1,389. The Company recorded a discount on the Convertible Notes due 2023 of \$48,000 which will be accreted and recorded as additional interest expense over the life of the Convertible Notes due 2023. During 2018, the Company recognized \$5,444 in accretion related to the discount. The effective interest rate of the liability component of the Convertible Notes due 2023 is equal to the stated interest rate plus the accretion of original issue discount. The effective interest rate on the liability component of the Convertible Notes due 2023 for the year ended December 31, 2018 was approximately 6%.

Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

See “Note 18 – Net Income (Loss) Per Share” for further discussion of the effect of conversion on net income per common share.

Credit Agreement

In 2014, Envestnet and certain of its subsidiaries entered into a credit agreement with a group of banks (the “Banks”), for which Bank of Montreal is acting as administrative agent, pursuant to which the Banks agreed to provide an unsecured revolving credit facility of \$70,000 with a sublimit for the issuance of letters of credit of \$5,000. Since then the agreement has been amended several times and was last amended and restated in July 2017.

On July 18, 2017, the Company and certain of its subsidiaries entered into a Second Amended and Restated Credit Agreement (the “Second Amended and Restated Credit Agreement”) with the Banks, for which Bank of Montreal acted as administrative agent (the “Administrative Agent”). The Second Amended and Restated Credit Agreement amends and restates the Amended and Restated Credit Agreement, dated as of November 19, 2015, as amended, among the Company, the guarantors party thereto, the lenders party thereto and Bank of Montreal, as administrative agent (the “Prior Credit Facility”). Pursuant to the Second Amended and Restated Credit Agreement, the Banks agreed to provide to the Company revolving credit commitments (the “Revolving Credit Facility”) in the aggregate amount of up to \$350,000 which amount may be increased by \$50,000. The Second Amended and Restated Credit Agreement also includes a \$5,000 subfacility for the issuance of letters of credit.

Obligations under the Second Amended and Restated Credit Agreement are guaranteed by substantially all of Envestnet’s U.S. subsidiaries, including Yodlee. In accordance with the terms of the Security Agreement, dated November 19, 2015 (the “Security Agreement”), among the Company, the Debtors party thereto, the Banks and the Administrative Agent, obligations under the Second Amended and Restated Credit Agreement are secured by substantially all of the Company’s domestic assets and the Company’s pledge of 66% of the voting equity and 100% of the non-voting equity of certain of its first-tier foreign subsidiaries. In addition to funding a portion of the cash consideration paid by the Company in connection with the acquisition of Yodlee, proceeds under the Second Amended and Restated Credit Agreement may be used to finance capital expenditures, working capital, permitted acquisitions and for general corporate purposes.

The Company will pay interest on borrowings made under the Second Amended and Restated Credit Agreement at rates between 1.50% and 3.25% above LIBOR based on the Company’s total leverage ratio. Borrowings under the Second Amended and Restated Credit Agreement are scheduled to mature on July 18, 2022. There is also a commitment fee equal to 0.25% per annum on the daily unused portion of the facility.

The Second Amended and Restated Credit Agreement contains customary conditions, representations and warranties, affirmative and negative covenants, mandatory prepayment provisions and events of default. The covenants include certain financial covenants requiring Envestnet to maintain compliance with a maximum senior leverage ratio, a maximum total leverage ratio, a minimum interest coverage ratio and minimum adjusted EBITDA, and provisions that limit the ability of Envestnet and its subsidiaries to incur debt, make investments, sell assets, create liens, engage in transactions with affiliates, engage in mergers and acquisitions, pay dividends and other restricted payments, grant negative pledges and change their business activities.

On May 24, 2018, Envestnet Inc. and certain of its subsidiaries entered into a first amendment to the Second Amended and Restated Credit Agreement (the “Credit Agreement Amendment”). The Credit Agreement Amendment made certain technical changes to the calculations of various covenants contained in the Credit Agreement.

As of December 31, 2018, there were no revolving credit amounts outstanding under the Second Amended and Restated Credit Agreement. The July 18, 2017 amendment replaced the Term Notes and related excess cash flow payment obligations, which were issued in relation to a previous amendment, with a revolving line of credit. As of December 31, 2018, the debt issuance costs related to the Second Amended and Restated Credit Agreement and the Prior Credit Facility are presented in prepaid expenses and other non-current assets which have outstanding amounts of \$855 and \$2,251, respectively.

The Second Amended and Restated Credit Agreement includes certain financial covenants and, as of December 31, 2018, the Company was in compliance with these requirements.

Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

## 13. Other Non-Current Liabilities

Other non-current liabilities consist of the following:

	December 31,	
	2018	2017
Uncertain tax positions	\$10,394	\$10,640
Deferred compensation liability	6,196	4,364
Other	1,415	98
Total	\$18,005	\$15,102

## 14. Fair Value Measurements

The Company follows ASC 825-10, Financial Instruments, which provides companies the option to report selected financial assets and liabilities at fair value. ASC 825-10 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect of the Company's choice to use fair value on its earnings. ASC 825-10 also requires entities to display the fair value of the selected assets and liabilities on the face of the balance sheet. The Company has not elected the ASC 825-10 option to report selected financial assets and liabilities at fair value.

Financial assets and liabilities recorded at fair value in the consolidated balance sheets are categorized based upon a fair value hierarchy established by GAAP, which prioritizes the inputs used to measure fair value into the following levels:

Level I: Inputs based on quoted market prices in active markets for identical assets or liabilities at the measurement date.

Level II: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or inputs that are observable and can be corroborated by observable market data.

Level III: Inputs reflect management's best estimates and assumptions of what market participants would use in pricing the asset or liability at the measurement date. The inputs are unobservable in the market and significant to the valuation of the instruments.

## Fair Value on a Recurring Basis

The following tables set forth the fair value of the Company's financial assets and liabilities measured at fair value in the consolidated balance sheets as of December 31, 2018 and 2017, based on the three-tier fair value hierarchy:

	December 31, 2018		
	Fair Value	Level I	Level II Level III
Assets			
Money market funds and other <sup>(1)</sup>	\$265,554	\$265,554	\$ —

Edgar Filing: ENVESTNET, INC. - Form 10-K

Assets to fund deferred compensation liability <sup>(2)</sup>	6,346	—	—	6,346
Total assets	\$271,900	\$265,554	\$	—\$ 6,346
Liabilities				
Contingent consideration	\$732	\$—	\$	—\$ 732
Deferred compensation liability <sup>(3)</sup>	6,196	6,196	—	—
Total liabilities	\$6,928	\$6,196	\$	—\$ 732

105

---

Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

	December 31, 2017			
	Fair Value	Level I	Level II	Level III
Assets:				
Money market funds <sup>(1)</sup>	\$39,400	\$39,400	\$	—\$ —
Assets to fund deferred compensation liability <sup>(2)</sup>	5,185	—	—	5,185
Total assets	\$44,585	\$39,400	\$	—\$ 5,185
Liabilities:				
Contingent consideration	\$2,781	\$—	\$	—\$ 2,781
Deferred compensation liability <sup>(3)</sup>	4,364	4,364	—	—
Total liabilities	\$7,145	\$4,364	\$	—\$ 2,781

(1) The fair values of the Company's investments in money-market funds are based on the daily quoted market prices for the net asset value of the various money market funds and time deposit accounts which mature on a daily basis. The deferred compensation asset fair value is based upon the cash surrender value of the life insurance premiums.

(2) The Company recognized immaterial losses related to this asset within the statements of operations for the year ended December 31, 2018, and immaterial gains related to this asset within the statements of operations for the year ended December 31, 2017.

(3) The deferred compensation liability is included in other non-current liabilities in the consolidated balance sheets and its fair market value is based on the daily quoted market prices for the net asset value of the various funds in which the participants have selected. The Company recognized immaterial gains related to this liability within the statements of operations for the years ended December 31, 2018 and 2017.

Level I assets and liabilities include money-market funds not insured by the Federal Deposit Insurance Corporation ("FDIC"), deferred compensation liability, and the revolving credit facility. The Company periodically invests excess cash in money-market funds not insured by the FDIC. The Company believes that the investments in money market funds are on deposit with creditworthy financial institutions and that the funds are highly liquid. These money-market funds are considered Level 1 and are included in cash and cash equivalents in the consolidated balance sheets. The fair value of the deferred compensation liability is based upon the daily quoted market prices for net asset value on the various funds selected by participants. Time deposit account fair values are determined by trade confirmations which mature daily and therefore are considered highly liquid investments. The outstanding balance on the revolving credit facility approximated fair value as the revolving credit facility bore interest at variable rates and we believe our credit risk quality was consistent with when the debt originated.

Level III liabilities consist of the estimated fair value of contingent consideration as well as the deferred compensation asset. The fair market value of the deferred compensation asset is based upon the cash surrender value of the life insurance premiums.

The fair value of the contingent consideration liabilities related to the FinaConnect and Wheelhouse acquisitions were estimated using a discounted cash flow method with significant inputs that are not observable in the market and thus represents a Level III fair value measurement as defined in ASC 820, Fair Value Measurements and Disclosures. The significant inputs in the Level III measurement not supported by market activity included our assessments of expected future cash flows related to our acquisitions of FinaConnect and Wheelhouse during the subsequent periods from the date of acquisition, appropriately discounted considering the uncertainties associated with the obligation, and calculated in accordance with the terms of the agreement.

The Company utilized a discounted cash flow method with expected future performance of FinaConnect and Wheelhouse, and their ability to meet the target performance objectives as the main driver of the valuation, to arrive at the fair values of their respective contingent consideration. The Company will continue to reassess the fair value of the contingent consideration for the Wheelhouse acquisition at each reporting date until settlement. During 2017, the FinaConnect contingent consideration liability was settled in the amount of \$2,286. During 2018, Company paid



Wheelhouse contingent consideration in the amount of \$2,193. Changes to the estimated fair values of the contingent consideration will be recognized in earnings of the Company and included in general and administration on the consolidated statements of operations.

Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

The table below presents a reconciliation of the assets to fund deferred compensation liability of which the Company measured at fair value on a recurring basis using significant unobservable inputs (Level III) for the period from December 31, 2017 to December 31, 2018:

	Fair Value of Assets to Fund Deferred Compensation Liability
Balance at December 31, 2017	\$ 5,185
Contributions and fair value adjustments	1,161
Balance at December 31, 2018	\$ 6,346

The asset value increased due to funding of the plan partially offset by immaterial losses on the underlying investment vehicles, which resulted in an asset value of \$6,346 as of December 31, 2018, which is included in other non-current assets on the consolidated balance sheets.

The table below presents a reconciliation of contingent consideration liabilities of which the Company measured at fair value on a recurring basis using significant unobservable inputs (Level III) for the period from December 31, 2017 to December 31, 2018:

	Fair Value of Contingent Consideration Liabilities
Balance at December 31, 2017	\$ 2,781
Payment of contingent consideration liability	(2,193 )
Accretion on contingent consideration	144
Balance at December 31, 2018	\$ 732

The Company assesses categorization of assets and liabilities by level at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer, in accordance with the Company's accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. There were no transfers between Levels I, II and III during the year ended December 31, 2018.

On December 15, 2014, the Company issued \$172,500 of Convertible Notes due 2019. As of December 31, 2018 and 2017, the carrying value of the Convertible Notes due 2019 equaled \$165,711 and \$158,990, respectively, and represented the aggregate principal amount outstanding less the unamortized discount and debt issuance costs. As of December 31, 2018 and 2017, the estimated fair value of the Convertible Notes due 2019 was \$174,101 and \$180,180, respectively. The Company considered the Convertible Notes due 2019 to be a Level II liability as of December 31, 2018 and 2017, and used a market approach to calculate the fair value. The estimated fair value was determined based on the estimated or actual bids and offers of the Convertible Notes due 2019 in an over-the-counter market on or near December 31, 2018 (see "Note 12 – Debt").

On May 25, 2018, the Company issued \$345,000 of Convertible Notes due 2023. As of December 31, 2018, the carrying value of the Convertible Notes due 2023 equaled \$294,725, and represented the aggregate principal amount outstanding less the unamortized discount and debt issuance costs. As of December 31, 2018, the estimated fair value of the Convertible Notes due 2023 was \$339,024. The Company considered the Convertible Notes due 2023 to be a Level II liability as of December 31, 2018 and 2017, and used a market approach to calculate the fair value. The estimated fair value was determined based on the estimated or actual bids and offers of the Convertible Notes due 2023 in an over-the-counter market on or near December 31, 2018 (see “Note 12 – Debt”).

As of December 31, 2018 and 2017, there was \$0 and \$81,168, respectively, outstanding on the revolving credit facility under the Second Amended and Restated Credit Agreement. As of December 31, 2017, the outstanding balance on our

Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

revolving credit facility approximated fair value as the revolving credit facility bore interest at variable rates and we believed our credit risk quality was consistent with when the debt originated. The Company considered the revolving credit facility to be a Level I liability as of December 31, 2018 and 2017 (see “Note 12 – Debt”).

We consider the recorded value of our other financial assets and liabilities, which consist primarily of cash and cash equivalents, accounts receivable and accounts payable, to approximate the fair value of the respective assets and liabilities at December 31, 2018 based upon the short-term nature of the assets and liabilities.

## 15. Income Taxes

Income (loss) before income tax provision (benefit) was generated in the following jurisdictions:

	Year Ended December 31,		
	2018	2017	2016
Domestic	\$(18,242)	\$(9,387)	\$(47,059)
Foreign	9,080	7,698	6,569
Total	\$(9,162 )	\$(1,689)	\$(40,490)

The components of the income tax provision (benefit) charged to operations are summarized as follows:

	Year Ended December 31,		
	2018	2017	2016
Current:			
Federal	4,564	\$(1,201)	\$3,812
State	1,044	951	1,172
Foreign	4,849	6,438	4,509
	10,457	6,188	9,493
Deferred:			
Federal	(19,444 )	(4,439 )	5,992
State	(3,182 )	146	117
Foreign	(1,003 )	(304 )	(525 )
	(23,629 )	(4,597 )	5,584
Total	\$(13,172)	\$1,591	\$15,077

Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

Net deferred tax assets (liabilities) consist of the following:

	December 31,	
	2018	2017
Deferred revenue	\$5,642	\$5,723
Prepaid expenses and accruals	3,302	1,459
Deferred rent and lease incentives	4,255	3,419
Net operating loss and tax credit carryforwards	78,689	66,896
Property and equipment and intangible assets	(73,778)	(51,182)
Stock-based compensation expense	7,667	6,894
Convertible Notes	(11,918)	(2,886 )
Other	1,032	1,221
Total deferred tax assets	14,891	31,544
Less: valuation allowance	(15,531)	(32,513)
Net deferred tax liabilities	\$(640 )	\$(969 )

On December 22, 2017 the Tax Cuts and Jobs Act ("the Act") was signed into United States law. The Act significantly changes U.S. income tax law and is the first major overhaul of the federal income tax code in more than 30 years. Key provisions of the Act that may impact the Company include: (i) reduction of the U.S. federal corporate income tax rate from 35% to 21%, (ii) repeal of the Corporate Alternative Minimum Tax ("AMT") system, (iii) replacement of the worldwide taxation system with a territorial tax system which exempts certain foreign operations from U.S. taxation but also taxes certain foreign income under a new regime, called Global Intangible Low-Taxed Income ("GILTI"), (iv) further limitation on the deductibility of certain executive compensation, (v) modification of earnings calculations for certain foreign subsidiaries that were previously tax deferred to a one-time tax, (vi) creation of a new base erosion anti-abuse tax (Base Erosion Anti-Abuse Tax, or "BEAT"), (vii) allowance for immediate capital expensing of certain qualified property, (viii) limitation on the deduction for net interest expense incurred by a U.S. corporation, and (ix) modification and/or repeal of a number of other international provisions.

Due to the complexities involved in accounting for the enactment of the Tax Reform, SAB 118 allowed us to record provisional amounts in earnings for the year ended December 31, 2017. In 2017 and the first nine months of 2018, we recorded provisional amounts for certain enactment-date effects of the Act by applying the guidance in SAB 118 because we had not yet completed our enactment-date accounting for these effects. SAB 118 provides that where reasonable estimates can be made, the provisional accounting should be based on such estimates and when no reasonable estimate can be made, the provisional accounting may be based on the tax law in effect before the Tax Reform. SAB 118 allowed a measurement period of up to one year from the enactment date to identify Tax Reform impacts. As of the period ended December 31, 2018, we completed our analysis of the Tax Reform on our consolidated financial statements and recorded additional tax expense of \$814 primarily related to the one-time tax on deferred foreign earnings in the tax provision. Our accounting for the final income tax effects of the Tax Reform has been finalized and the measurement period under SAB 118 ended during the period ended December 31, 2018. Despite the completion of our accounting for the Tax Reform under SAB 118, many aspects of the law remain unclear and we expect ongoing guidance to be issued at both the federal and state levels. We will continue to monitor and assess the impact of any new developments.

Related to the Act's new provision on GILTI, under GAAP, the Company is allowed to make an accounting policy choice to either (i) treat taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the "period cost method"); or (ii) factor in such amounts into the measurement of our deferred

taxes (the "deferred method"). The selection of an accounting policy related to the GILTI tax provisions depends, in part, on analyzing our global income to determine whether the Company expects to have future U.S. inclusions in taxable income related to GILTI and, if so, what the impact is expected to be. While the future global operations depend on a number of different factors, the Company does expect to have future U.S. inclusions in taxable income related to GILTI. Further, the Company has made a policy decision to record GILTI tax as a current-period expense when incurred.

In addition, the BEAT provision has an impact on the Company in the current year. In accordance with FASB guidance, the incremental effect of BEAT is recognized in the year the BEAT is incurred and also there is no need to evaluate

Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

the effect of potentially paying the BEAT in future years. The current year estimated BEAT liability and therefore impact to the Company's tax expense is \$3,760.

The valuation allowance for net deferred tax assets as of December 31, 2018 and 2017 was \$15,531 and \$32,513, respectively. The change in the valuation allowance from 2017 to 2018 was primarily related to the acquisition of Folio and the Company's convertible debt incurred in 2018 in addition to the current year movement related to the amortization of book intangible assets. In assessing the realizability of deferred tax assets, management considers whether it is more-likely-than-not that some or all of the deferred tax assets will be realized.

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. A significant piece of objective negative evidence is the cumulative loss incurred over the three-year period ended December 31, 2018. Such objective evidence limits the ability to consider other subjective evidence such as our projections for future growth.

On the basis of this evaluation, as of December 31, 2018, a valuation allowance of \$15,531 has been recorded to record only the portion of the deferred tax asset that is more likely than not to be realized. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight may be given to subjective evidence such as our projections for growth.

Prior to December 31, 2017, the Company did not claim permanent reinvestment of our accumulated foreign earnings, and recorded taxes on these earnings. The amount of this estimated liability at December 31, 2016 was approximately \$4,500. As of December 31, 2017, the Company changed our position on this matter and claimed permanent reinvestment on accumulated earnings of approximately \$20,600. As of December 31, 2018, the Company has claimed permanent reinvestment on accumulated earnings of approximately \$33,000. Post Tax Reform, the primary deferred tax liability that is not being recorded by the Company relates to India withholding tax. The reinvested foreign earnings of the Company will be used to fund future foreign acquisitions, capital expenditures, headcount expansion and other operating expenses. As these earnings will be permanently reinvested in the foreign jurisdictions, deferred taxes were not recorded.

The expected tax provision (benefit) calculated at the statutory federal rate differs from the actual provision as follows:

	Year Ended December 31,		
	2018	2017	2016
Tax provision (benefit), at U.S. federal statutory tax rate	\$(1,559 )	\$(573 )	\$(13,767)
State income tax provision (benefit), net of federal benefit	(1,714 )	(1,251 )	(2,053 )
Effect of stock-based compensation excess tax benefit	(7,782 )	(11,522)	—
Effect of permanent items	2,967	1,145	1,773
Change in valuation allowance	(4,244 )	2,151	26,269
Effect of change in federal income tax rate	—	13,792	—
Effect of change in state and foreign income tax rates	(269 )	537	279
Uncertain tax positions	(2,062 )	3,668	2,024
BEAT liability	3,760	—	—
Research and development credits	(4,770 )	(2,815 )	(2,758 )

Edgar Filing: ENVESTNET, INC. - Form 10-K

Change in permanent reinvestment assertion	—	(4,494 )	—
State net operating loss adjustment, net of valuation allowance impact	—	836	—
Other	2,501	117	3,310
Income tax provision	\$(13,172)	\$1,591	\$15,077

At December 31, 2018, the Company had NOL carryforwards, before any uncertain tax position reserves, for federal income tax purposes of approximately \$267,000 which are available to offset future federal taxable income, if any, and expire through 2038. In addition, as of December 31, 2018, the Company had NOL carryforwards for state income tax purposes of



Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

approximately \$153,000 available to reduce future income subject to income taxes. The state NOL carryforwards expire through 2038.

In addition, at December 31, 2018, the Company had AMT credit carryforwards of approximately \$1,455 for Federal purposes. As a result of tax reform, AMT credits are refundable for any taxable year beginning after 2017 and before 2022 in an amount equal to 50% (100% in the case of taxable years beginning in 2021) of the excess of the minimum tax credit for the taxable year over the amount of the credit allowable for the year against regular tax liability. Thus, the minimum tax credit was reclassified from a deferred tax asset to an income tax receivable. The Company also had AMT credits of \$19 for California, which are available to reduce future California income taxes, if any, over an indefinite period. In addition, the Company had research and development credit carryforwards of approximately \$15,259 for federal and \$9,452 for California and Illinois, as well as foreign tax credits of \$1,401 available to offset federal income tax.

A reconciliation of the beginning and ending amount of unrecognized tax benefit is as follows:

	Year Ended December 31,		
	2018	2017	2016
Unrecognized tax benefits balance at beginning of year	\$ 18,312	\$ 16,476	\$ 14,129
Additions based on tax positions related to the current year	1,907	1,691	1,153
Additions based on tax positions related to prior years	(3,976 )	145	1,257
Reductions for settlements with taxing authorities related to prior years	(615 )	—	—
Reductions for lapses of statute of limitations	—	—	(63 )
Unrecognized tax benefits balance at end of year	\$ 15,628	\$ 18,312	\$ 16,476

At December 31, 2018, the amount of unrecognized tax benefits that would benefit the Company's effective tax rate, if recognized, was \$15,628. The Company estimates it is reasonably possible that there will not be a material change to the liability for unrecognized tax benefits in the next twelve months.

The Company recognizes potential interest and penalties related to unrecognized tax benefits in income tax expense. For the years ended December 31, 2018 and 2017, income tax expense included \$126 and \$1,690, respectively, of potential interest and penalties related to unrecognized tax benefits. The Company had accrued interest and penalties of \$5,977 and \$6,018 as of December 31, 2018 and 2017, respectively.

The Company files a consolidated federal income tax return and separate tax returns with various states. Additionally, foreign subsidiaries of the Company file tax returns in foreign jurisdictions. The Company was notified by the Internal Revenue Service as of December 18, 2017 that the calendar year 2015 and 2016 federal income tax returns have been selected for audit by the Internal Revenue Service. As of the date of this report, no additional taxes had been assessed, as the audit has not yet concluded. The Company's tax returns for the calendar years ended December 31, 2017, 2016, and 2015 remain open to examination by the Internal Revenue Service in their entirety. With respect to state taxing jurisdictions, the Company's tax returns for calendar years ended December 31, 2017, 2016, 2015, and 2014 remain open to examination by various state revenue services.

Our Indian subsidiaries are currently under examination by the India Tax Authority for the fiscal years ended March 31, 2005, 2008, 2011, 2012, 2013, 2014, 2015, 2016, and 2017. Based on the outcome of examinations of our subsidiary or the result of the expiration of statutes of limitations it is reasonably possible that the related unrecognized tax benefits could change from those recorded in the consolidated balance sheet. It is possible that one or more of these audits may be finalized within the next twelve months.

#### 16. Stockholders' Equity

On February 25, 2016, the Company announced that its Board of Directors had authorized a share repurchase program under which the Company may repurchase up to 2,000,000 shares of its common stock. The timing and volume of share repurchases will be determined by the Company's management based on its ongoing assessments of the capital needs of the business, the market price of its common stock and general market conditions. No time limit has been set for the completion of the repurchase program, and the program may be suspended or discontinued at any time. The repurchase program authorizes the

Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

Company to purchase its common stock from time to time in the open market (including pursuant to a “Rule 10b5-1 plan”), in block transactions, in privately negotiated transactions, through accelerated stock repurchase programs, through option or other forward transactions or otherwise, all in compliance with applicable laws and other restrictions. For each of the years ended December 31, 2018 and 2017, the Company purchased no shares of the Company’s common stock. As of both December 31, 2018 and 2017, a maximum of 1,956,390 shares may yet be purchased under this program.

On December 20, 2018, the Company issued and sold to BlackRock, Inc. (“BlackRock”) approximately 2,356,000 common shares at a purchase price of \$52.13 per share, and warrants to purchase approximately 470,000 common shares at an exercise price of \$65.16 per share, subject to customary anti-dilution adjustments. The warrants are exercisable at BlackRock’s option for four years from the date of issuance. The warrants may be exercisable through cash exercise or net issue exercise with cash settlement at the sole discretion of the Company. The gross proceeds received of approximately \$122,788 were allocated to the common shares and the warrants and recorded within stockholders’ equity. In connection with this transaction, the Company incurred total transaction costs of approximately \$4,627 and recorded them as a reduction in equity.

#### 17. Stock-Based Compensation

On December 31, 2004, the Company adopted a stock incentive plan (the “2004 Plan”). The 2004 Plan provided for the grant of options to employees, consultants, and non-employee directors to purchase common stock, which vest over time and have a ten-year contractual term. To satisfy options granted under the 2004 Plan, the Company made common stock available from authorized but unissued shares or shares held in treasury, if any, by the Company. Stock options granted under the 2004 Plan were non-stock options, as defined in the 2004 Plan agreement. Stock options were granted with an exercise price no less than the fair-market-value price of the common stock at the date of the grant.

The 2004 Plan has a change in control provision whereby if a change in control occurs and the participant’s awards are not equitably adjusted, such awards shall become fully vested and exercisable and all forfeiture restrictions on such awards shall lapse. Based on the terms of the 2004 Plan, the Company’s initial public offering in 2010 did not trigger the change in control provision and did not result in any modifications to the outstanding equity awards under the 2004 Plan.

On June 22, 2010, the Board of Directors approved the 2010 Long-Term Incentive Plan (“2010 Plan”), effective upon the closing of the Company’s initial public offering. The 2010 Plan provides for the grant of options, stock appreciation rights, Full Value Awards (as defined in the 2010 Plan) and cash incentive awards to employees, consultants and non-employee directors to purchase common stock, which vest over time and have a ten-year contractual term. The maximum number of shares of common stock that may be delivered under the 2010 Plan is equal to the sum of 2,700,000 plus the number of shares of common stock that are subject to outstanding awards under the 2004 Plan which are forfeited, expire or are canceled after the effective date of the Company’s initial public offering. Stock options and stock appreciation rights are granted with an exercise price no less than the fair-market-value price of the common stock at the date of the grant. On May 13, 2015 and July 13, 2017, the shareholders approved the 2010 Long-Term Incentive Plan as Amended. The amendments increased the number of common shares of the Company reserved for delivery under the 2010 Plan by 2,700,000 shares and 3,525,000 shares, respectively.

As a result of the merger between Envestnet and Tamarac, the Company adopted the Envestnet, Inc. Management Incentive Plan for Envestnet | Tamarac Management Employees (the “2012 Plan”). The 2012 Plan provides for the grant of restricted common stock, stock options and the purchase of common stock for certain Envestnet | Tamarac employees. The maximum number of shares of stock which may be issued with respect to awards under the 2012 Plan is 1,023,851.

The 2012 Plan provides for the grant of up to 559,551 shares of common stock (“Target Incentive Awards”). The Target Incentive Awards vest based upon Tamarac meeting certain performance conditions and then a subsequent two-year service condition. The Company measured the cost of these awards based on the estimated fair value of the award as of the market closing price on the day before the acquisition closed. The Company is recognizing the estimated expense on a graded-vesting method over a requisite service period of three to five years, which is the estimated vesting period. The Company estimates the expected vesting amount and recognizes compensation expense only for those awards expected to vest. This estimate is reassessed by management each reporting period and may change based upon new facts and circumstances. Changes in the assumptions impact the total amount of expense and are recognized over the vesting period. As of December 31, 2017, all 559,551 shares of restricted stock had vested.

As a result of the merger between Envestnet and Yodlee, the Company adopted the Envestnet, Inc. 2015 Acquisition Equity Award Plan (the “2015 Plan”). The 2015 Plan provides for the assumption of all unvested equity awards previously

Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

granted pursuant to the Yodlee employees and the conversion of such awards into equity awards of the Company pursuant to the 2015 Plan. No new awards are being made under the 2015 Plan. The maximum number of shares of stock which may be issued with respect to awards under the 2015 Plan is 1,058,807.

As of December 31, 2018, the maximum number of options and restricted stock available for future issuance under the Company's plans is 3,078,360.

Employee stock-based compensation expense was as follows:

	Year Ended December 31,		
	2018	2017	2016
Stock-based compensation expense	\$40,245	\$31,331	\$33,276
Tax effect on stock-based compensation expense	(10,093 )	(11,906 )	(13,001 )
Net effect on income	\$30,152	\$19,425	\$20,275

The tax effect on stock-based compensation expense above was calculated using a blended statutory rate of 25.1%, 38.0%, and 39.1% for the years ended December 31, 2018, 2017 and 2016, respectively. However, due to the valuation allowance recorded on domestic deferrals, there was no tax effect related to stock-based compensation expense for the years ended December 31, 2018, 2017 and 2016, respectively.

## Stock Options

The following weighted average assumptions were used to value options granted during the periods indicated:

	December 31,	
	2017	2016
Grant date fair value of options	\$14.51	\$9.56
Volatility	43.8 %	42.2 %
Risk-free interest rate	2.1 %	1.4 %
Dividend yield	—	—
Expected term (in years)	6.3	6.3

Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

The following table summarizes option activity under the Company's plans:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2015	3,533,791	\$ 15.03	4.7	\$ 61,199
Granted	163,864	22.38		
Exercised	(598,382 )	8.23		
Forfeited	(66,079 )	35.08		
Outstanding as of December 31, 2016	3,033,194	16.33	4.3	63,264
Granted	75,238	31.70		
Exercised	(837,857 )	9.49		
Forfeited	(16,010 )	37.42		
Outstanding as of December 31, 2017	2,254,565	19.23	4.3	69,939
Granted	—	—		
Exercised	(359,345 )	14.76		
Forfeited	(7,251 )	27.51		
Outstanding as of December 31, 2018	1,887,969	20.05	3.4	56,046
Options exercisable	1,830,082	19.78	3.3	54,837

The aggregate intrinsic values in the table below represent the total pre-tax intrinsic value (the aggregate difference between the fair value of the Company's common stock on December 31, 2018, 2017 and 2016 of \$49.19, \$49.85 and \$35.25, respectively, and the exercise price of in-the-money options) that would have been received by the option holders had all option holders exercised their options as of that date.

Other information is as follows:

	Year Ended December 31,		
	2018	2017	2016
Total intrinsic value of options exercised	\$15,667	\$29,562	\$14,165
Cash received from exercises of stock options	5,305	7,951	4,924

Exercise prices of stock options outstanding as of December 31, 2018 range from \$7.15 to \$55.29. At December 31, 2018, there was \$632 of unrecognized compensation expense related to unvested stock options, which the Company expects to recognize over a weighted-average period of 1.0 years.

Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

## Restricted Stock Units and Restricted Stock Awards

Periodically, the Company grants restricted stock unit awards to employees. Beginning with grants issued in February 2016, restricted stock units awards vest one-third on the first anniversary of the grant date and quarterly thereafter. For grants issued prior to February 2016, restricted stock units awards would vest ratably in three annual tranches from the date of grant.

The following is a summary of the activity for unvested restricted stock units and awards granted under the Company's plans:

	Number of Shares	Weighted- Average Grant Date Fair Value per Share
Outstanding as of December 31, 2015	2,153,211	\$ 35.63
Granted	1,009,661	28.82
Vested	(1,082,206)	29.12
Forfeited	(185,907 )	30.96
Outstanding as of December 31, 2016	1,894,759	30.40
Granted	959,591	32.38
Vested	(969,513 )	31.51
Forfeited	(118,198 )	30.11
Outstanding as of December 31, 2017	1,766,639	32.48
Granted	996,099	55.42
Vested	(1,073,681)	32.62
Forfeited	(103,269 )	40.37
Outstanding as of December 31, 2018	1,585,788	46.33

At December 31, 2018, there was \$55,427 of unrecognized compensation expense related to unvested restricted stock unit awards, which the Company expects to recognize over a weighted-average period of 1.9 years.

In connection with the Yodlee merger, on November 19, 2015, the Company issued 1,052,000 shares of Envestnet restricted stock unit awards ("replacement awards") issued in connection with unvested Yodlee employee equity awards. The Yodlee unvested stock options and unvested restricted stock units were canceled and exchanged for the replacement awards. In accordance with ASC 805, these awards are considered to be replacement awards. Exchanges of share options or other share-based payment awards in conjunction with a business combination are modifications of share-based payment awards in accordance with ASC Topic 718. As a result, a portion of the fair-value-based measure of the replacement awards, are included in measuring the consideration transferred in the Yodlee business combination. To determine the portion of the replacement award that is part of consideration transferred to acquire Yodlee, we have measured both the replacement awards granted by Envestnet and the historical Yodlee awards as of November 19, 2015 in accordance with ASC 718. The portion of the fair-value-based measure of the replacement award that is part of the consideration transferred in exchange for the acquisition of Yodlee, equals the portion of the Yodlee award that is attributable to pre-combination service. Envestnet has attributed a portion of the replacement awards to post combination service as these awards require post combination service. The fair value of the rollover consideration was estimated to be \$32,836 of which \$4,318 was attributable to pre-acquisition services. The remaining fair value of \$28,518 is amortizing over the 43 month vesting period subsequent to the acquisition date. As of

December 31, 2018, the remaining amount of unrecognized expense totaled \$767.

The Company entered into employment agreements with certain executive officers, three of whom received a total of 205,000 performance-based restricted stock unit awards in May 2016 which vest upon the achievement of certain “Target Performance Measures” as defined in the employment agreements, and four of whom also received a total of 125,000 restricted stock units awards in August 2016 which vest quarterly thereafter. The Target Performance Measures for the Performance Periods, as defined in the employment agreements, were achieved as of December 31, 2016 and these shares will fully vest in May 2019.



Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

During March 2018 and July 2018, the Company granted approximately 26,000 and 30,000 performance-based restricted stock unit awards to certain employees, respectively. These performance-based restricted unit awards vest upon the achievement of certain pre-established business and financial metrics as well as service condition. The business and financial metrics governing the vesting of these performance-based restricted stock unit awards provide thresholds which dictate the number of shares to vest upon each evaluation date, which range from 50% to 150%. If these metrics are achieved, as defined in the individual grant terms, these shares would cliff vest three years from the grant date.

## 18. Net Income (Loss) Per Share

Basic net income or loss per common share is computed by dividing net income or loss available to common stockholders by the weighted average number of shares of common stock outstanding for the period. For the calculation of diluted earnings per share, the basic weighted average number of shares is increased by the dilutive effect of stock options, common warrants, restricted stock awards, restricted stock units and Convertible Notes using the treasury stock method, if dilutive.

The Company accounts for the effect of the Convertible Notes on diluted net income per share using the treasury stock method since they may be settled in cash, shares or a combination thereof at the Company's option. As a result, the Convertible Notes have no effect on diluted net loss per share until the Company's stock price exceeds the conversion price of \$62.88 and \$68.31 per share, respectively, or if the trading price of the Convertible Notes meets certain criteria as described in "Note 12 – Debt." In the period of conversion, the Convertible Notes will have no impact on diluted earnings per share if the Convertible Notes are settled in cash and will have an impact on basic and diluted earnings per share if the Convertible Notes are settled in shares upon conversion.

The following table provides a reconciliation of the numerators and denominators used in computing basic and diluted net income (loss) per share attributable to common stockholders:

	Year Ended December 31,		
	2018	2017	2016
Basic income (loss) per share calculation:			
Net income (loss) attributable to Envestnet, Inc.	\$5,755	\$ (3,280 )	\$ (55,567 )
Basic number of weighted-average shares outstanding			
Basic	45,268,002	42,732,148	42,814,222
	\$0.13	\$ (0.08 )	\$ (1.30 )
Diluted income (loss) per share calculation:			
Net income (loss) attributable to Envestnet, Inc.	\$5,755	\$ (3,280 )	\$ (55,567 )
Basic number of weighted-average shares outstanding			
Effect of dilutive shares:	45,268,002	42,732,148	42,814,222
Options to purchase common stock	1,304,493	—	—
Unvested restricted stock units	811,590	—	—
Diluted number of weighted-average shares outstanding	47,384,085	42,732,148	42,814,222
Diluted	\$0.12	\$ (0.08 )	\$ (1.30 )



Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

Securities that were anti-dilutive and therefore excluded from the computation of diluted earnings per share are as follows:

	December 31,		
	2018	2017	2016
Options to purchase common stock	—	2,254,565	3,033,194
Unvested restricted stock awards and units	—	1,766,639	1,894,759
Warrants - private placement	470,000	—	—
Convertible Notes	7,793,826	2,743,321	2,743,321
Total	8,263,826	6,764,525	7,671,274

## 19. Commitments and Contingencies

## Leases

The Company rents office space under leases that expire at various dates through 2030.

Future annual minimum lease commitments under operating leases were as follows:

## Years ending December 31:

2019	\$15,997
2020	15,437
2021	14,705
2022	10,816
2023	9,910
Thereafter	39,449
Total	\$106,314

Rent expense for all operating leases totaled:

	Year Ended December 31,		
	2018	2017	2016
Rent expense	\$19,658	\$18,084	\$14,984

## Purchase Obligations and Indemnifications

The Company includes various types of indemnification and guarantee clauses in certain arrangements. These indemnifications and guarantees may include, but are not limited to, infringement claims related to intellectual property, direct or consequential damages and guarantees to certain service providers and service level requirements with certain customers. The type and amount of any potential indemnification or guarantee varies substantially based on the nature of each arrangement. The Company has experienced no previous claims and cannot determine the maximum amount of potential future payments, if any, related to such indemnification and guarantee provisions. The Company believes that it is unlikely it will have to make material payments under these arrangements and therefore has not recorded a contingent liability in the consolidated balance sheets.

The Company enters into unconditional purchase obligations arrangements for certain of its services that it receives in the normal course of business. As of December 31, 2018, the Company estimated future minimum unconditional purchase obligations of \$41,112.

Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

## Legal Proceedings

The Company is involved in legal proceedings arising in the ordinary course of its business. Legal fees and other costs associated with such actions are expensed as incurred. The Company will record a provision for these claims when it is both probable that a liability has been incurred and the amount of the loss, or a range of the potential loss, can be reasonably estimated. These provisions are reviewed regularly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information or events pertaining to a particular case. Legal proceedings accruals are recorded when and if it is determined that a loss is both probable and reasonably estimable. For litigation matters where a loss may be reasonably possible, but not probable, or is probable but not reasonably estimable, no accrual is established, but if the matter is material, it is subject to disclosures. The Company believes that liabilities associated with any claims, while possible, are not probable, and therefore has not recorded any accrual for any claims as of December 31, 2018. Further, while any possible range of loss cannot be reasonably estimated at this time, the Company does not believe that the outcome of any of these proceedings, individually or in the aggregate, would, if determined adversely to it, have a material adverse effect on its financial condition or business, although an adverse resolution of legal proceedings could have a material adverse effect on the Company's results of operations or cash flow in a particular quarter or year.

## Contingencies

Certain of the Company's revenues are subject to sales and use taxes in certain jurisdictions where it conducts business in the United States. During 2018 and 2017, the Company estimated that a sales and use tax liability of \$8,643 and \$8,522, respectively, was probable related to multiple taxing jurisdictions with respect to revenues in the years ended December 31, 2018 and December 31, 2017, and prior years. This amount is included in accrued expenses and other liabilities on the consolidated balance sheets.

For the years ended December 31, 2018 and 2017, the Company also estimated a sales and use tax receivable of \$5,246 and \$2,704, respectively, related to the estimated recoverability of a portion of the liability from customers. This amount is included in prepaid expenses and other current assets on the consolidated balance sheets.

Additional future information obtained from the applicable jurisdictions may affect the Company's estimate of its sales and use tax liability, but such change in the estimate cannot currently be made.

## 20. Benefit Plan

The Company sponsors a profit sharing and savings plan under Section 401(k) of the Internal Revenue Code, covering substantially all domestic employees. The Company made voluntary employer matching contributions as follows:

	Year Ended December 31,		
	2018	2017	2016
Voluntary employer matching contributions	\$4,778	\$4,038	\$2,270

## 21. Segment Information

Business segments are generally organized around our business services. Our business segments are:

Envestnet – a leading provider of unified wealth management software and services to empower financial advisors and institutions.

- Envestnet | Yodlee™ – leading data aggregation and data analytics platform powering dynamic, cloud-based innovation for digital financial services.

The information in the following tables is derived from the Company's internal financial reporting used for corporate management purposes. Nonsegment expenses include salary and benefits for certain corporate officers, certain types of professional service expenses and insurance, acquisition related transaction costs, restructuring charges and other non-recurring and/or non-operationally related expenses. Inter-segment revenues were not material for the year ended December 31, 2018.

Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

The accounting policies of the reportable business segments are the same as those described in “Note 2 – Summary of Significant Accounting Policies.”

The following table presents revenue by segment:

	Year Ended December 31,		
	2018	2017	2016
Revenue:			
Envestnet			
Asset-based	\$481,233	\$410,016	\$352,498
Subscription-based	138,372	106,048	84,340
Total recurring revenues	619,605	516,064	436,838
Professional services and other	13,000	11,841	10,794
Total Envestnet segment revenues	632,605	527,905	447,632
Envestnet   Yodlee			
Subscription-based	157,095	139,819	113,785
Professional services and other	22,663	15,955	16,747
Total Envestnet   Yodlee segment revenues	179,758	155,774	130,532
Consolidated revenue	\$812,363	\$683,679	\$578,164
Fidelity revenue as a percentage of Envestnet segment revenue:	21	% 22	% 19
		%	%

No single customer revenue amounts for Envestnet | Yodlee exceeded 10% of the segment revenue total.

The following table presents a reconciliation from income from operations by segment to consolidated net income (loss) attributable to Envestnet, Inc.:

	Year Ended December 31,		
	2018	2017	2016
Envestnet	\$75,491	\$75,449	\$41,678
Envestnet   Yodlee	(10,013 )	(19,456 )	(38,547 )
Total segment income from operations	65,478	55,993	3,131
Nonsegment operating expenses	(51,313 )	(39,573 )	(26,575 )
Interest expense, net	(22,840 )	(16,146 )	(16,563 )
Other expense, net	(487 )	(1,963 )	(483 )
Consolidated loss before income tax provision (benefit)	(9,162 )	(1,689 )	(40,490 )
Income tax provision (benefit)	(13,172 )	1,591	15,077
Consolidated net income (loss)	4,010	(3,280 )	(55,567 )
Add: Net loss attributable to non-controlling interest	1,745	—	—
Consolidated net income (loss) attributable to Envestnet, Inc.	\$5,755	\$(3,280 )	\$(55,567)

Segment assets primarily consist of cash, accounts receivable, prepaid expenses and other current assets, property and equipment, net, internally developed software, goodwill, intangible assets, net, deferred tax assets and other non-current assets. Segment capital expenditures consist of property and equipment and internally developed software expenditures.





Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

A summary of consolidated total assets, consolidated depreciation and amortization and consolidated capital expenditures by segment follows:

	December 31,	
	2018	2017
Segment assets:		
Envestnet	\$810,971	\$353,048
Envestnet   Yodlee	502,776	509,004
Consolidated total assets	\$1,313,747	\$862,052

	Year Ended December 31,		
	2018	2017	2016
Segment depreciation and amortization:			
Envestnet	\$45,139	\$26,223	\$24,784
Envestnet   Yodlee	32,487	36,597	39,215
Consolidated depreciation and amortization	\$77,626	\$62,820	\$63,999

	Year Ended December 31,		
	2018	2017	2016
Segment capital expenditures:			
Envestnet	\$36,406	\$22,434	\$17,120
Envestnet   Yodlee	8,186	5,135	5,456
Consolidated capital expenditures	\$44,592	\$27,569	\$22,576

## 22. Geographical Information

The following table sets forth property and equipment, net by geographic area:

	December 31,	
	2018	2017
United States	\$39,412	\$30,647
India	3,969	4,907
Other	1,610	355
Total	\$44,991	\$35,909

## 23. Net Capital Requirements

Portfolio Brokerage Services, Inc. (“PBS”) is a broker-dealer subject to the SEC Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital (“net capital ratio”), both as defined, shall not exceed 15 to 1. SEC Rule 15c3-1 also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. At December 31, 2018, the Company had net capital of \$1,259, which was \$1,159 in excess of its required net capital of \$100. At December 31, 2018, the Company’s net capital ratio was 0.03 to 1.

Additionally, PBS is subject to net capital requirements of certain self-regulatory organizations and at December 31, 2018, PBS was in compliance with such requirements.



Table of Contents

Envestnet, Inc.

Notes to Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

## 24. Subsequent Events

## Acquisition of private company

On January 2, 2019, pursuant to an agreement and plan of merger dated as of January 2, 2019 between Envestnet | Yodlee and a private company that provides conversational artificial intelligence tools and applications to financial services firms, the private company merged with and into Envestnet | Yodlee (the “Acquisition”). The completion of the Acquisition on January 2, 2019 followed the receipt of all necessary regulatory approvals and third party consents. In connection with the Acquisition, the Company will pay estimated consideration of \$18,500 for all the outstanding shares of the private company, subject to certain closing and post-closing adjustments. The private company improves the way Financial Service Providers (“FSPs”) can interact with their consumers, and supports these FSPs to better engage, support, and assist their consumers leveraging this latest wave of customer-centric capabilities.

## 25. Quarterly Financial Data (Unaudited)

Quarterly results for the years ended December 31, 2018 and 2017 were as follows:

	2018			
	First	Second	Third	Fourth
Total revenues	\$198,011	\$201,116	\$203,156	\$210,080
Income (loss) from operations	(738 )	5	3,395	11,503
Net income (loss) attributable to Envestnet, Inc.	8,104	(5,526 )	2,954	223
Net income (loss) per share attributable to Envestnet, Inc.:				
Basic <sup>(1)</sup>	0.18	(0.12 )	0.06	—
Diluted <sup>(1)(2)</sup>	0.17	(0.12 )	0.06	—
	2017			
	First	Second	Third	Fourth
Total revenues	\$157,786	\$167,417	\$175,614	\$182,862
Income (loss) from operations	(3,354 )	2,743	4,348	12,683
Net income (loss) attributable to Envestnet, Inc.	(13,135 )	(6,470 )	(1,320 )	17,645
Net incomes (loss) per share attributable to Envestnet, Inc.:				
Basic <sup>(1)</sup>	(0.30 )	(0.15 )	(0.03 )	0.40
Diluted <sup>(1)(2)</sup>	(0.30 )	(0.15 )	(0.03 )	0.38

(1) Quarterly values may not sum to annual values due to rounding.

(2) Quarterly values may not sum to annual values due to differences in quarterly dilution compared to year to date dilution.

## Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

## Item 9A. Controls and Procedures

## a. Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2018. The term “disclosure controls and procedures,” as defined in Rules 13a 15(e) and 15d 15(e) under the Exchange Act, means controls and other procedures

of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including its principal executive and

121

---

Table of Contents

principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost benefit relationship of possible controls and procedures.

Based on this evaluation, our chief executive officer and chief financial officer have concluded that, as of December 31, 2018, our disclosure controls and procedures were effective.

b. Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with U.S. generally accepted accounting principles and include policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with U.S. generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the consolidated financial statements.

Our management, including our chief executive officer and chief financial officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2018 using the criteria established in the updated Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the assessment, management determined that the Company maintained effective internal control over financial reporting as of December 31, 2018.

Our independent registered public accounting firm, KPMG LLP, has issued a report concerning the effectiveness of our internal control over financial reporting as of December 31, 2018. See "Report of Independent Registered Public Accounting Firm" in Part II, Item 8 in this Form 10-K.

On January 2, 2018 we acquired all of the outstanding membership interests of Folio Dynamics Holdings, Inc. ("FolioDynamix") and in August 2018 we acquired all of the issued and outstanding membership interests of a private company, collectively (the "Acquired Companies"). Since the date of these acquisitions, we have been analyzing and evaluating the procedures and controls of these companies to determine their effectiveness and to make them consistent with our procedures and controls. As permitted by the SEC, management has excluded the Acquired Companies from its assessment of internal control over financial reporting as of December 31, 2018. FolioDynamix's revenues for the year ended December 31, 2018 totaled \$68,122. As of December 31, 2018, FolioDynamix total assets represented \$230,570 of consolidated total assets. The results of the private company's operations for the year ended December 31, 2018 are not considered material to the Company's results of operations. The private company's total assets as of December 31, 2018 are not material to the Company's consolidated total assets.

c. Changes in Internal Control Over Financial Reporting

During the three months ended December 31, 2018, we made certain changes made to our internal control over financial reporting in order to enhance controls over our accounts payable and travel and expense system, which is provided by a third party service organization. There were no other changes that have materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

Table of Contents

Part III

Item 10. Directors, Executive Officers and Corporate Governance

Information required by this Item relating to our directors and nominees, regarding compliance with Section 16(a) of the Securities Act of 1934, and regarding our Audit Committee (including information with respect to audit committee financial experts) is included under the captions “CORPORATE GOVERNANCE—The Board of Directors,” “CORPORATE GOVERNANCE—Did our insiders comply with Section 16(a) beneficial ownership reporting in 2018?” and “CORPORATE GOVERNANCE—The Committees of the Board” in our Proxy Statement related to the Annual Meeting of Stockholders to be held May 16, 2019, and is incorporated herein by reference.

The information required by this item relating to our executive officers and other corporate officers is included under the caption “Executive Officers of the Registrant” in Part I, Item 1 of this report.

We have adopted a code of ethics that applies to all of our employees, including our principal executive officer and our principal financial officer and our principal accounting officer. This code of ethics is posted on our Website. The Internet address for our Website is [www.envestnet.com](http://www.envestnet.com), and the code of ethics may be found from our main Web page by clicking first on “Investor Relations” and then “Corporate Governance,” and then on “Code of Conduct.” We intend to disclose any amendment to, or waiver from, a provision of this code of ethics by posting such information to our Website, at the address and location specified above.

Item 11. Executive Compensation

Information required by this Item regarding executive compensation and our Compensation Committee's report is under the caption “EXECUTIVE COMPENSATION” in our Proxy Statement for the Annual Meeting of Stockholders to be held May 16, 2019, and is incorporated herein by reference, except the section captioned “EXECUTIVE COMPENSATION—Compensation Committee Report” is hereby “furnished” and not “filed” with this annual report on Form 10 K.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required by this Item regarding security ownership of certain beneficial owners and management and related stockholder matters is included under the caption “INFORMATION ABOUT OUR COMMON SHARES OWNERSHIP” in our Proxy Statement for the Annual Meeting of Stockholders to be held May 16, 2019, and is incorporated herein by reference. For a description of securities authorized under our equity compensation plans, see “Note 16 – Stockholders’ Equity” to the consolidated financial statements in Part II, Item 8.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information required by this Item regarding certain relationships and related transactions is included under the captions “CORPORATE GOVERNANCE—What is our Related Party transactions approval policy and what procedures do we use to implement it?” and “CORPORATE GOVERNANCE—What Related Party transactions do we have?” in our Proxy Statement for the Annual Meeting of the Stockholders to be held May 16, 2019, and is incorporated herein by reference.

Information required by this Item regarding director independence is included under the caption “CORPORATE GOVERNANCE—Director Independence” in our Proxy Statement for the Annual Meeting of the Stockholders to be held May 16, 2019, and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Information regarding principal accountant fees and services is included under the captions “PROPOSAL NO. 3 RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS—Independent Auditor Fee Information” and “PROPOSAL NO. 3 RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS—Pre-Approval Policy of Audit and Non-Audit Services” in our Proxy Statement for the Annual Meeting of Stockholders to be held May 16, 2019, and is incorporated herein by reference.

Table of Contents

PART IV

Item 15. Exhibits and Financial Statement Schedules

	Page Number in Form 10-K
(a)(1) Consolidated Financial Statements	
<u>Report of Independent Registered Public Accounting Firm</u>	<u>73</u>
<u>Consolidated Balance Sheets as of December 31, 2018 and 2017</u>	<u>75</u>
<u>Consolidated Statements of Operations for each of the years ended December 31, 2018, 2017, and 2016</u>	<u>76</u>
<u>Consolidated Statements of Comprehensive Income (Loss) for each of the years ended December 31, 2018, 2017, and 2016</u>	<u>77</u>
<u>Consolidated Statements of Stockholders' Equity for each of the years ended December 31, 2018, 2017, and 2016</u>	<u>78</u>
<u>Consolidated Statements of Cash Flows for each of the years ended December 31, 2018, 2017, and 2016</u>	<u>79</u>
<u>Notes to Consolidated Financial Statements</u>	<u>81</u>
(a)(2) Evaluation and Qualifying Accounts	
Financial statements and schedules are omitted for the reason that they are not applicable, are not required, or the information is included in the financial statements or the related footnotes.	
(b) Exhibits: The Exhibits required by Item 601 of Regulation S-K are listed in the Index to the Exhibits on pages 125 to 127 of this report, which is incorporated herein by reference.	

Item 16. Form 10-K Summary

Not applicable.

Table of Contents

## INDEX TO EXHIBITS

Exhibit No.	Description
3.1	<u>Amended and Restated Certificate of Incorporation of Envestnet, Inc. (filed as Exhibit 3.1 to the Company's Registration Statement on Form S-1, as amended (File No. 333-165717), filed with the SEC on July 1, 2010 and incorporated by reference herein).</u>
3.2	<u>Amended and Restated Bylaws of Envestnet, Inc. (filed as Exhibit 3.2 to the Company's Registration Statement on Form S-1, as amended (File No. 333-165717), filed with the SEC on July 1, 2010 and incorporated by reference herein).</u>
4.5	<u>Indenture, dated as of December 15, 2014, by and between the Company and U.S. Bank National Association, as trustee (filed as Exhibit 4.1 to the Company's Form 8 K filed with the SEC on December 15, 2014 and incorporated by reference herein).</u>
4.6	<u>First Supplemental Indenture, dated as of December 15, 2014, by and between the Company and U.S. Bank National Association, as trustee (filed as Exhibit 4.2 to the Company's Form 8 K filed with the SEC on December 15, 2014 and incorporated by reference herein).</u>
4.7	<u>Indenture, dated as of May 25, 2018, by and between the Company, Envestnet Asset Management, Inc. and U.S. Bank National Association, as trustee (filed as Exhibit 4.1 to the Company's Form 8 K filed with the SEC on May 25, 2018 and incorporated by reference herein).</u>
4.8	<u>Warrant issued to Blackhawk Investment Holdings, LLC (filed as Exhibit 4.1 to the Company's Form 8 K filed with the SEC on December 20, 2018 and incorporated by reference herein).</u>
4.89	<u>Registration Rights Agreement, dated December 20, 2018, between the Company and BlackRock, Inc. (filed as Exhibit 10.1 to the Company's Form 8 K filed with the SEC on December 20, 2018 and incorporated by reference herein).</u>
10.1	<u>Technology and Services Agreement dated as of March 31, 2008, between Registrant and FMR LLC (filed as Exhibit 10.1 to the Company's Registration Statement on Form S 1, as amended (File No. 333 165717), filed with the SEC on May 6, 2010 and incorporated by reference herein).</u>
10.2	<u>First Amendment to Technology and Services Agreement dated June 26, 2008 (filed as Exhibit 10.2 to the Company's Registration Statement on Form S 1, as amended (File No. 333 165717), filed with the SEC on May 6, 2010 and incorporated by reference herein).</u>
10.3	<u>Second Amendment to Technology and Services Agreement dated May 5, 2009 (filed as Exhibit 10.3 to the Company's Registration Statement on Form S 1, as amended (File No. 333 165717), filed with the SEC on May 6, 2010 and incorporated by reference herein).</u>
10.4	<u>Third Amendment to Technology and Services Agreement dated November 16, 2009 (filed as Exhibit 10.4 to the Company's Registration Statement on Form S 1, as amended (File No. 333 165717), filed with the SEC on May 6, 2010 and incorporated by reference herein).</u>
10.5	<u>Services Agreement dated December 28, 2005 between Registrant and Fidelity Brokerage Services LLC (filed as Exhibit 10.5 to the Company's Registration Statement on Form S 1, as amended (File No. 333 165717), filed with the SEC on May 6, 2010 and incorporated by reference herein).</u>
10.6	<u>Services Agreement effective March 24, 2005 between Registrant and National Financial Services LLC (filed as Exhibit 10.6 to the Company's Registration Statement on Form S 1, as amended (File No. 333 165717), filed with the SEC on May 6, 2010 and incorporated by reference herein).</u>
10.7	<u>Services Agreement Amendment dated effective March 2008 (filed as Exhibit 10.7 to the Company's Registration Statement on Form S 1, as amended (File No. 333 165717), filed with the SEC on May 6, 2010 and incorporated by reference herein).</u>
10.10	<u>2010 Long Term Incentive Plan (filed as Exhibit 10.10 to the Company's Registration Statement on Form S 1, as amended (File No. 333 165717), filed with the SEC on July 1, 2010 and incorporated by reference herein).*</u>
10.11	<u>2004 Stock Incentive Plan (filed as Exhibit 10.11 to the Company's Registration Statement on Form S 1, as amended (File No. 333 165717), filed with the SEC on July 1, 2010 and incorporated by reference herein).*</u>
10.12	



Form of Equity Award, filed as Exhibit 10.12 to the Company's 2010 Form 10-K, (filed with the SEC on March 18, 2011 and incorporated by reference herein).\*

10.13 Fourth Amendment to Technology Services Agreement, dated as of December 31, 2011, between Envestnet, Inc. and FMR LLC (filed as Exhibit 10.1 to the Company's Form 8-K filed with the SEC on January 6, 2012 and incorporated by reference herein).

10.14 Amendment to Services Agreement effective December 31, 2011, between Envestnet Asset Management, Inc. and Fidelity (filed as Exhibit 10.2 to the Company's Form 8-K filed with the SEC on January 6, 2012 and incorporated by reference herein).

10.15 Third Amendment to Services Agreement effective December 31, 2011, between Envestnet Asset Management, Inc. and National Financial Services LLC. (filed as Exhibit 10.3 to the Company's Form 8-K filed with the SEC on January 6, 2012 and incorporated by reference herein).

Table of Contents

Exhibit No.	Description
10.16	<u>Envestnet, Inc. Management Incentive Plan for Envestnet   Tamarac Management Employees (filed as Exhibit 4.3 to the Company's Registration Statement on Form S-8 (filed with the SEC on May 1, 2012 and incorporated by reference herein).*</u>
10.17	<u>First Amendment to Envestnet, Inc. Management Incentive Plan for Envestnet   Tamarac Management Employees (filed as Exhibit 10.1 to the Company's Form 8-K filed with the SEC on April 17, 2013 and incorporated by reference herein).*</u>
10.18	<u>Second Amendment to Envestnet, Inc. Management Incentive Plan for Envestnet   Tamarac Management Employees (filed as Exhibit 10.1 to the Company's Form 8-K filed with the SEC on May 13, 2013 and incorporated by reference herein).*</u>
10.19	<u>Envestnet, Inc. Executive Deferred Compensation Plan (filed as Exhibit 10.1 to the Company's Form 8-K filed with the SEC on February 10, 2015 and incorporated by reference herein).*</u>
10.2	<u>Envestnet, Inc. Director Deferred Compensation Plan (filed as Exhibit 10.2 to the Company's Form 8-K/A filed with the SEC on February 11, 2015 and incorporated by reference herein).*</u>
10.21	<u>2010 Long-Term Incentive Plan, as amended (filed as Exhibit A to the Company's 2015 Annual Meeting Proxy Statement (File No. 1-34835), filed with the SEC on April 13, 2015 and incorporated by reference herein).*</u>
10.22	<u>Envestnet, Inc. 2015 Acquisition Equity Award Plan (filed as Exhibit 4.3 to the Company's Form S-8 filed with the SEC on November 19, 2015 and incorporated by reference herein).*</u>
10.23	<u>Employment Agreement, dated as of January 27, 2016 between the Company and Anil Arora (filed as Exhibit 10.8 to the Company's Form 10-Q filed with the SEC on August 13, 2016 and incorporated by reference herein).*</u>
10.24	<u>Executive Agreement, dated as of May 12, 2016 between Judson Bergman, the Company and Envestnet Asset Management, Inc. (filed as Exhibit 10.1 to the Company's Form 8-K filed with the SEC on May 13, 2016 and incorporated by reference herein).*</u>
10.25	<u>Executive Agreement, dated as of May 12, 2016 between William Crager, the Company and Envestnet Asset Management, Inc. (filed as Exhibit 10.2 to the Company's Form 8-K filed with the SEC on May 13, 2016 and incorporated by reference herein).*</u>
10.26	<u>Executive Agreement, dated as of May 12, 2016 between Peter D'Arrigo, the Company and Envestnet Asset Management, Inc. (filed as Exhibit 10.3 to the Company's Form 8-K filed with the SEC on May 13, 2016 and incorporated by reference herein).*</u>
10.27	<u>Executive Agreement, dated as of August 2, 2016 between Scott Grinis, the Company and Envestnet Asset Management, Inc. (filed as Exhibit 10.2 to the Company's Form 8-K filed with the SEC on August 4, 2016 and incorporated by reference herein).*</u>
10.28	<u>Executive Agreement, dated as of August 2, 2016 between Josh Mayer, the Company and Envestnet Asset Management, Inc. (filed as Exhibit 10.1 to the Company's Form 8-K filed with the SEC on August 4, 2016 and incorporated by reference herein).*</u>
10.29	<u>Nonqualified Stock Option Grant Certificate and Terms and Conditions for Anil Arora, dated December 12, 2015 (filed as Exhibit 10.9 to the Company's Form 10-Q filed with the SEC on August 13, 2016 and incorporated by reference herein).*</u>
10.3	<u>Full Value Award Grant Certificate and Terms and Conditions for Anil Arora, dated December 12, 2015 (filed as Exhibit 10.10 to the Company's Form 10-Q filed with the SEC on August 13, 2016 and incorporated by reference herein).*</u>
10.31	<u>Nonqualified Stock Option Grant Certificate and Terms and Conditions for Judson Bergman, dated May 12, 2016 (filed as Exhibit 10.7 to the Company's Form 8-K filed with the SEC on May 13, 2016 and incorporated by reference herein).*</u>
10.32	<u>Full Value Award Grant Certificate and Terms and Conditions for Judson Bergman, dated May 12, 2016 (filed as Exhibit 10.4 to the Company's Form 8-K filed with the SEC on May 13, 2016 and incorporated by reference herein).*</u>

- 10.33 Full Value Award Grant Certificate and Terms and Conditions for William Crager, dated May 12, 2016 (filed as Exhibit 10.5 to the Company's Form 8-K filed with the SEC on May 13, 2016 and incorporated by reference herein).\*
- 10.34 Full Value Award Grant Certificate and Terms and Conditions for Peter D'Arrigo, dated May 12, 2016 (filed as Exhibit 10.6 to the Company's Form 8-K filed with the SEC on May 13, 2016 and incorporated by reference herein).\*
- 10.35 Full Value Award Grant Certificate and Terms and Conditions for Scott Grinis, dated August 2, 2016 (filed as Exhibit 10.4 to the Company's Form 8-K filed with the SEC on August 4, 2016 and incorporated by reference herein).\*

Table of Contents

Exhibit No.	Description
10.36	<u>Full Value Award Grant Certificate and Terms and Conditions for Josh Mayer, dated August 2, 2016 (filed as Exhibit 10.3 to the Company’s Form 8-K filed with the SEC on August 4, 2016 and incorporated by reference herein).*</u>
10.37	<u>Second Amended and Restated Credit Agreement dated July 18, 2017 among Envestnet, Inc., the Guarantors from time to time party thereto, the Lenders from time to time party thereto and Bank of Montreal, as Administrative Agent (filed as Exhibit 10.1 to the Company’s Form 8-K filed with the SEC on July 24, 2017 and incorporated by reference herein).</u>
10.38	<u>Amended and Restated Security Agreement, dated as of July 18, 2017, among Envestnet, Inc., the Debtors from time to time party thereto and Bank of Montreal, as Administrative Agent (filed as Exhibit 10.2 to the Company’s Form 8-K filed with the SEC on July 24, 2017 and incorporated by reference herein).</u>
10.39	<u>First Amendment to Second Amended and Restated Credit Agreement, dated as of May 24, 2018, among Envestnet, Inc., the Guarantors from time to time party thereto, the Lenders from time to time party thereto, and Bank of Montreal, as Administrative Agent (filed as Exhibit 10.1 to the Company’s Form 8-K filed with the SEC on May 30, 2018 and incorporated by reference herein).</u>
10.40	<u>Investment Agreement, dated November 27, 2018, between the Company and BlackRock, Inc. (filed as Exhibit 10.1 to the Company’s Form 8-K filed with the SEC on November 27, 2018 and incorporated by reference herein).</u>
21.1	<u>Subsidiaries of the Company, filed herewith.</u>
23.1	<u>Consent of Independent Registered Public Accounting Firm, filed herewith.</u>
31.1	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.</u>
32.1(1)	<u>Certification of Chief Executive Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.</u>
32.2(1)	<u>Certification of Chief Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.</u>
101.INS	XBRL Instance Document***
101.SCH	XBRL Taxonomy Extension Schema Document***
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document***
101.LAB	XBRL Taxonomy Extension Label Linkbase Document***
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document***
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document***

(1) The material contained in Exhibit 32.1 and 32.2 is not deemed “filed” with the SEC and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language contained in such filing, except to the extent that the registrant specifically incorporates it by reference.

\* Management contract or compensation plan.

\*\* Application has been made with the Securities and Exchange Commission to seek confidential treatment of certain provisions. Omitted material for which confidential treatment has been requested has been filed separately with the Securities and Exchange Commission.

Attached as Exhibit 101 to this Annual Report on Form 10 K are the following materials, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets as of December 31, 2018 and 2017; (ii) the Consolidated Statements of Operations for the years ended December 31, 2018, 2017 and 2016; \*\*\*(iii) the Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2018, 2017 and 2016; (iv) the Consolidated Statements of Stockholders’ Equity for the years ended December 31, 2018, 2017 and 2016; (v) the Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016; (vi) notes to the Consolidated Financial Statements.



Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ENVESTNET, INC.

Date: March 1, 2019 /s/ Judson Bergman  
 Judson Bergman  
 Chairman and Chief Executive Officer (Principal  
 Executive Officer)

Date: March 1, 2019 /s/ Peter H. D'Arrigo  
 Peter H. D'Arrigo  
 Chief Financial Officer (Principal Financial Officer)

Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities on March 1, 2019.

Name	Position
/s/ Judson Bergman Judson Bergman	Chairman and Chief Executive Officer; Director (Principal Executive Officer)
/s/ Anil Arora Anil Arora	Vice Chairman, Director
/s/ Peter H. D'Arrigo Peter H. D'Arrigo	Chief Financial Officer (Principal Financial Officer)
/s/ Matthew J. Majoros Matthew J. Majoros	Senior Vice President, Financial Reporting (Principal Accounting Officer)
/s/ Luis Aguilar Luis Aguilar	Director
/s/ Ross Chapin Ross Chapin	Director
/s/ Gayle Crowell Gayle Crowell	Director
/s/ James Fox James Fox	Director
/s/ Valerie Mosley Valerie Mosley	Director
/s/ Charles Roame Charles Roame	Director
/s/ Greg Smith	Director

Greg Smith

128