

ENVESTNET, INC.  
Form 10-Q  
May 08, 2015  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**FORM 10-Q**

---

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2015**

**o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Commission file number 001-34835**

---

**Envestnet, Inc.**

(Exact name of registrant as specified in its charter)

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

---

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**20-1409613**  
(I.R.S Employer  
Identification No.)

**35 East Wacker Drive, Suite 2400, Chicago, IL**  
(Address of principal executive offices)

**60601**  
(Zip Code)

Registrant's telephone number, including area code:

**(312) 827-2800**

---

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of May 1, 2015, 35,292,156 shares of the common stock with a par value of \$0.005 per share were outstanding.

---

Table of Contents

**TABLE OF CONTENTS**

|   | <b>Page</b> |
|---|-------------|
| <b>PART I - FINANCIAL INFORMATION</b>   |             |
| <u>Item 1. Financial Statements (Unaudited)</u>   |             |
| <u>Condensed Consolidated Balance Sheets as of March 31, 2015 and December 31, 2014</u>                   | 3           |
| <u>Condensed Consolidated Statements of Operations for the three months ended March 31, 2015 and 2014</u> | 4           |
| <u>Condensed Consolidated Statement of Equity for the three months ended March 31, 2015</u>               | 5           |
| <u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2015 and 2014</u> | 6           |
| <u>Notes to Condensed Consolidated Financial Statements</u>   | 7           |
| <br>  |             |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>      | 20          |
| <u>Forward-Looking Statements</u>   | 20          |
| <u>Overview</u>   | 21          |
| <u>Results of Operations</u>  | 24          |
| <u>Liquidity and Capital Resources</u>  | 29          |
| <br>  |             |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>                                 | 30          |
| <br>  |             |
| <u>Item 4. Controls and Procedures</u>  | 30          |
| <br><b>PART II - OTHER INFORMATION</b>  |             |
| <br>  |             |
| <u>Item 1. Legal Proceedings</u>  | 32          |
| <br>  |             |
| <u>Item 1A. Risk Factors</u>  | 32          |
| <br>  |             |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>                                | 32          |
| <br>  |             |
| <u>Item 6. Exhibits</u>   | 32          |

Table of Contents**Investnet, Inc.****Condensed Consolidated Balance Sheets****(in thousands, except share information)****(unaudited)**

|   | <b>March 31,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|---|---------------------------|------------------------------|
| <b>Assets</b>   |                           |                              |
| Current assets:   |                           |                              |
| Cash and cash equivalents   | \$ 209,914                | \$ 209,754                   |
| Fees and other receivable, net  | 26,198                    | 20,345                       |
| Deferred tax assets, net  | 4,635                     | 4,654                        |
| Prepaid expenses and other current assets   | 20,091                    | 7,242                        |
| Total current assets  | 260,838                   | 241,995                      |
| Property and equipment, net   | 17,087                    | 16,629                       |
| Internally developed software, net  | 7,555                     | 7,023                        |
| Intangible assets, net  | 58,514                    | 58,654                       |
| Goodwill  | 104,976                   | 104,976                      |
| Deferred tax assets, net  |                           | 565                          |
| Other non-current assets  | 9,846                     | 9,516                        |
| Total assets  | \$ 458,816                | \$ 439,358                   |
| <b>Liabilities and Equity</b>   |                           |                              |
| Current liabilities:  |                           |                              |
| Accrued expenses  | \$ 47,146                 | \$ 48,247                    |
| Accounts payable  | 5,151                     | 4,869                        |
| Contingent consideration  | 7,139                     | 6,405                        |
| Deferred revenue  | 5,702                     | 5,159                        |
| Total current liabilities   | 65,138                    | 64,680                       |
| Convertible notes   | 146,411                   | 145,203                      |
| Contingent consideration  | 5,624                     | 7,462                        |
| Deferred revenue  | 10,499                    | 6,954                        |
| Deferred rent   | 3,861                     | 3,588                        |
| Lease incentive   | 5,445                     | 5,550                        |
| Deferred tax liabilities, net   | 1,304                     |                              |
| Other non-current liabilities   | 2,374                     | 2,430                        |
| Total liabilities   | 240,656                   | 235,867                      |
| Commitments and contingencies   |                           |                              |
| Redeemable units in ERS, LLC  | 1,500                     | 1,500                        |
| 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; 47,119,054 and 46,345,376 shares issued as of March 31, 2015 and December 31, 2014, respectively; 35,201,151 and 34,544,653 shares outstanding as of March 31, 2015 and December 31, 2014, respectively | 236                       | 232                          |

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

|  |            |            |
|--|------------|------------|
| Additional paid-in capital   | 252,483    | 233,888    |
| Accumulated deficit  | (16,932)   | (19,443)   |
| Treasury stock at cost, 11,917,903 and 11,800,723 shares as of March 31, 2015 and<br>December 31, 2014, respectively | (19,683)   | (13,242)   |
| Total stockholders' equity   | 216,104    | 201,435    |
| Non-controlling interest   | 556        | 556        |
| Total equity   | 216,660    | 201,991    |
| Total liabilities and equity   | \$ 458,816 | \$ 439,358 |

*See accompanying notes to unaudited Condensed Consolidated Financial Statements.*

Table of Contents**Envestnet, Inc.****Condensed Consolidated Statements of Operations****(in thousands, except share and per share information)****(unaudited)**

|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2015</b>                             | <b>2014</b> |
| <b>Revenues:</b>   |   |             |
| Assets under management or administration                    | \$ 81,077                               | \$ 67,081   |
| Licensing and professional services                          | 15,377                                  | 11,458      |
| Total revenues   | 96,454                                  | 78,539      |
| <b>Operating expenses:</b>                                   |   |             |
| Cost of revenues   | 38,695                                  | 34,437      |
| Compensation and benefits                                    | 31,535                                  | 23,459      |
| General and administration                                   | 14,209                                  | 12,150      |
| Depreciation and amortization                                | 5,333                                   | 4,422       |
| Total operating expenses                                     | 89,772                                  | 74,468      |
| Income from operations                                       | 6,682                                   | 4,071       |
| Other (expense) income                                       | (2,203)                                 | 81          |
| Income before income tax provision                           | 4,479                                   | 4,152       |
| Income tax provision   | 1,968                                   | 1,284       |
| Net income   | 2,511                                   | 2,868       |
| Add: Net loss attributable to non-controlling interest       |   | 126         |
| Net income attributable to Envestnet, Inc.                   | \$ 2,511                                | \$ 2,994    |
| <b>Net income per share attributable to Envestnet, Inc.:</b> |   |             |
| Basic  | \$ 0.07                                 | \$ 0.09     |
| Diluted  | \$ 0.07                                 | \$ 0.08     |
| <b>Weighted average common shares outstanding:</b>           |   |             |
| Basic  | 35,147,043                              | 34,115,444  |
| Diluted  | 37,316,934                              | 36,558,983  |

*See accompanying notes to unaudited Condensed Consolidated Financial Statements.*

Table of Contents**Envestnet, Inc.****Condensed Consolidated Statement of Equity****(in thousands, except share information)****(unaudited)**

|  | Common Stock |        | Treasury Stock   |             | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Non-controlling<br>Interest | Total Equity |
|--|--------------|--------|------------------|-------------|----------------------------------|------------------------|-----------------------------|--------------|
|  | Shares       | Amount | Common<br>Shares | Amount      |                                  |                        |                             |              |
| Balance,<br>December 31, 2014  | 46,345,376   | \$ 232 | (11,800,723)     | \$ (13,242) | \$ 233,888                       | \$ (19,443)            | \$ 556                      | \$ 201,991   |
| Exercise of stock<br>options   | 415,512      | 2      |                  |             | 3,708                            |                        |                             | 3,710        |
| Issuance of common<br>stock - vesting of<br>restricted stock                 | 358,166      | 2      |                  |             |                                  |                        |                             | 2            |
| Stock-based<br>compensation<br>expense                                       |              |        |                  |             | 3,419                            |                        |                             | 3,419        |
| Excess tax benefits<br>from stock-based<br>compensation<br>expense           |              |        |                  |             | 11,468                           |                        |                             | 11,468       |
| Purchase of treasury<br>stock for stock-based<br>minimum tax<br>withholdings |              |        | (117,180)        | (6,441)     |                                  |                        |                             | (6,441)      |
| Net income   |              |        |                  |             |                                  | 2,511                  |                             | 2,511        |
| Balance, March 31,<br>2015   | 47,119,054   | 236    | (11,917,903)     | (19,683)    | 252,483                          | (16,932)               | 556                         | 216,660      |

*See accompanying notes to unaudited Condensed Consolidated Financial Statements.*

Table of Contents

## Envestnet, Inc.

## Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

|   | Three Months Ended<br>March 31, |                  |
|---|---------------------------------|------------------|
|   | 2015                            | 2014             |
| <b>OPERATING ACTIVITIES:</b>  |                                 |                  |
| Net income  | \$ 2,511                        | \$ 2,868         |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities:                     |                                 |                  |
| Depreciation and amortization   | 5,333                           | 4,422            |
| Deferred rent and lease incentive   | 168                             | (97)             |
| Deferred income taxes   | 1,888                           |                  |
| Stock-based compensation  | 3,419                           | 2,568            |
| Excess tax benefits from stock-based compensation   | (11,468)                        |                  |
| Interest expense  | 2,356                           |                  |
| Accretion on contingent consideration   | 342                             | 412              |
| Fair market value adjustment on contingent consideration  | (1,446)                         |                  |
| Changes in operating assets and liabilities, net of acquisitions:   |                                 |                  |
| Fees receivable   | (5,853)                         | (2,128)          |
| Prepaid expenses and other current assets   | (1,375)                         | (123)            |
| Other non-current assets  | (661)                           | (284)            |
| Accrued expenses  | (2,180)                         | (3,700)          |
| Accounts payable  | 188                             | 1,269            |
| Deferred revenue  | 4,088                           | 1,091            |
| Other non-current liabilities   | (58)                            | 21               |
| Net cash provided by (used in) operating activities   | (2,748)                         | 6,319            |
| <b>INVESTING ACTIVITIES:</b>  |                                 |                  |
| Purchase of property and equipment  | (2,058)                         | (2,002)          |
| Capitalization of internally developed software   | (1,132)                         | (860)            |
| Acquisition of business, net of cash acquired   | (2,641)                         |                  |
| Net cash used in investing activities   | (5,831)                         | (2,862)          |
| <b>FINANCING ACTIVITIES:</b>  |                                 |                  |
| Proceeds from exercise of stock options   | 3,710                           | 839              |
| Purchase of treasury stock for stock-based minimum tax withholdings   | (6,441)                         | (1,609)          |
| Excess tax benefits from stock-based compensation expense   | 11,468                          |                  |
| Issuance of restricted stock  | 2                               |                  |
| Net cash provided by (used in) financing activities   | 8,739                           | (770)            |
| <b>INCREASE IN CASH AND CASH EQUIVALENTS</b>  | <b>160</b>                      | <b>2,687</b>     |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>   | <b>209,754</b>                  | <b>49,942</b>    |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>   | <b>\$ 209,914</b>               | <b>\$ 52,629</b> |
| Supplemental disclosure of cash flow information - cash paid during the period for income taxes, net of refunds | \$ 475                          | \$ 114           |



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

|  |     |
|--|-----|
| Supplemental disclosure of cash flow information - cash paid during the period for interest    | 65  |
| Supplemental disclosure of non-cash operating, investing and financing activities:             |     |
| Settlement of contingent consideration liability upon issuance of ERS, LLC membership interest | 284 |
| Acquired purchase option   | 400 |

*See accompanying notes to unaudited Condensed Consolidated Financial Statements.*

Table of Contents

**Investnet, Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**(in thousands, except share and per share amounts)**

**1. Organization and Description of Business**

Investnet, Inc. ( Investnet ) and its subsidiaries (collectively, the Company ) provide open-architecture wealth management services and technology to independent financial advisors and financial institutions. These services and related technology are provided via Investnet's wealth management software, Investnet | PMC®, Investnet | Tamarac , Vantage Reporting Solution , Investnet | WMS and Investnet | Placemark .

Investnet's wealth management software is a platform of integrated, internet-based technology applications and related services that provide 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.

The Company's investment consulting group, Investnet | PMC, provides investment manager due diligence and research, a full spectrum of investment offerings supported by both proprietary and third-party research and manager selection, and overlay portfolio management services.

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

Vantage Reporting Solution software aggregates and manages investment data, provides performance reporting and benchmarking, giving advisors an in-depth view of clients' various investments, empowering advisors to give holistic, personalized advice.

Investnet | WMS offers financial institutions access to an integrated wealth platform, which helps construct and manage sophisticated portfolio solutions across an entire account life cycle, particularly in the area of unified managed account trading. Investnet | WMS's Overlay Portfolio Management console helps wealth managers efficiently build customized client portfolios that consider both proprietary and open-architecture investment solutions.

Investnet | Placemark develops unified managed account ( UMA ) programs and other portfolio management outsourcing solutions, including patented portfolio overlay and tax optimization services, for banks, full service broker-dealers and RIA firms.

## Edgar Filing: ENVESTNET, INC. - Form 10-Q

Through these platform and service offerings, the Company provides open-architecture support for a wide range of investment products (separately managed accounts, multi-manager accounts, mutual funds, exchange-traded funds, stock baskets, alternative investments, and other fee-based investment solutions) from Envestnet | PMC and other leading investment providers via multiple custodians, and also account administration and reporting services.

Envestnet operates six RIAs and a registered broker-dealer. The RIAs are registered with the 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. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of the Company as of March 31, 2015 and for the three months ended March 31, 2015 and 2014 have not been audited by an independent registered public accounting firm. These unaudited condensed consolidated financial statements have been prepared on the same basis as our audited consolidated financial statements for the year ended December 31, 2014 and reflect all normal recurring adjustments which are, in the opinion of management, necessary to present fairly the Company's financial position as of March 31, 2015 and the results of operations, equity and cash flows for the periods presented herein. The unaudited condensed consolidated balance sheet as of December 31, 2014 was derived from the Company's audited financial statements for the year ended December 31, 2014 but does not include all disclosures, including notes required by accounting principles generally accepted in the United States of America ( GAAP ). The results of operations for the three months ended March 31, 2015 are not necessarily indicative of the operating results to be expected for other interim periods or for the full fiscal year.

Table of Contents

**Investnet, Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**(in thousands, except share and per share amounts)**

The unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC on March 2, 2015.

The preparation of these unaudited condensed consolidated financial statements requires management to make estimates and assumptions related to the reporting of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Significant areas requiring the use of management estimates relate to estimating uncollectible receivables, revenue recognition, costs capitalized for internally developed software, valuations and assumptions used for impairment testing of goodwill, intangible and other long-lived assets, fair value of stock and stock options issued, fair value of contingent consideration, realization of deferred tax assets, uncertain tax positions and assumptions used to allocate purchase prices in business combinations. Actual results could differ materially from these estimates under different assumptions or conditions.

*Recent Accounting Pronouncements* - On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its consolidated financial statements.

**3. Business Acquisition**

*Upside Holdings, Inc.*

On February 24, 2015, Investnet, Inc. (the Company) acquired all of the stock of Upside Holdings, Inc. (including its subsidiaries Upside) for cash consideration totaling \$3,040, subject to certain post-closing adjustments.

Upside is a technology company that is registered as an Internet Investment Adviser under Rule 203A-2(f) of the Investment Advisers Act of 1940 (Advisers Act). Upside helps financial advisors compete against other digital advisors, or robo advisors, by leveraging technology and algorithms to advise, manage, and serve clients who want personalized investment services.

## Edgar Filing: ENVESTNET, INC. - Form 10-Q

The Company acquired Upside to integrate its technology within the Company's unified wealth management platform, which will allow advisors to compete more aggressively to engage their clients online and reach a new class of investors.

As of March 31, 2015, the Company has not finalized the working capital adjustment amount, the opening balance sheet (including taxes), nor has the Company performed a valuation of Upside's possible intangible assets and/or goodwill associated with the transaction. The Company expects to finalize the valuation of the intangible assets, and complete the acquisition accounting as soon as practicable but no later than September 30, 2015.

As a result of the acquisition of Upside, the Company provided for the future grant of unvested restricted stock awards to Upside employees at the end of each year in 2015, 2016 and 2017 upon Upside meeting certain performance conditions and then a subsequent two year service condition (Note 13). If 100 percent of the awards are earned for 2015, 2016 and 2017, the maximum number of shares that could be granted for 2015, 2016 and 2017 equals 22,064, 44,128 and 66,192 shares of common stock, respectively.

The preliminary estimated consideration transferred in the acquisition was as follows:

|                                      |    |       |
|--------------------------------------|----|-------|
| Upfront consideration                | \$ | 2,425 |
| Purchase liabilities                 |    | 615   |
| Estimated working capital settlement |    | (385) |
| Cash acquired                        |    | (14)  |
|                                      | \$ | 2,641 |

Table of Contents

**Envestnet, Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**(in thousands, except share and per share amounts)**

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

|                                |    |       |
|--------------------------------|----|-------|
| Total tangible assets acquired | \$ | 7     |
| Total liabilities assumed      |    | (427) |
| Identifiable intangible assets |    | 3,061 |
| Total net assets acquired      | \$ | 2,641 |

The results of Upside's operations are included in the condensed consolidated statement of operations beginning February 24, 2015, and are not considered material to the Company's results of operations.

For the three months ended March 31, 2015, acquisition related costs for Upside totaled \$202 and are included in general and administration expenses.

*Pro forma results for Envestnet, Inc. giving effect to the Placemark acquisition*

The following pro forma financial information presents the combined results of operations of Envestnet and Placemark, acquired on October 1, 2014, for the three months ended March 31, 2014. The pro forma financial information presents the results as if the acquisition had occurred as of the beginning of 2014. The results of Upside are not included in the pro forma financial information presented below as the Upside acquisition was not considered material to the Company's results of operations.

The unaudited pro forma results presented include amortization charges for acquired intangible assets, imputed interest expense, stock-based compensation expense and the related tax effect on the aforementioned items.

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 acquisition had taken place as of the beginning of 2014.

**Three Months  
Ended March 31,  
2014**

|                       |    |        |
|-----------------------|----|--------|
| Revenues              | \$ | 83,930 |
| Net income            |    | 2,453  |
| Net income per share: |    |        |
| Basic                 |    | 0.07   |
| Diluted               |    | 0.06   |

#### 4. Property and Equipment

|  | Estimated Useful Life                                    | March 31,<br>2015 | December 31,<br>2014 |
|--|--|-------------------|----------------------|
| Cost:  |  |                   |                      |
| Office furniture and fixtures                  | 5-7 years  | \$ 5,052          | \$ 4,993             |
| Computer equipment and software                | 3 years  | 19,929            | 18,540               |
| Other office equipment                         | 5 years  | 86                | 144                  |
| Leasehold improvements                         | Shorter of the lease term or<br>useful life of the asset | 11,015            | 10,805               |
|  |  | 36,082            | 34,482               |
| Less accumulated depreciation and amortization |  | (18,995)          | (17,853)             |
| Property and equipment, net                    |  | \$ 17,087         | \$ 16,629            |

Table of Contents

**Envestnet, Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**(in thousands, except share and per share amounts)**

Depreciation and amortization expense was as follows:

|                                       |    | <b>Three Months Ended<br/>March 31,</b> |             |
|---------------------------------------|----|---|-------------|
|                                       |    | <b>2015</b>                             | <b>2014</b> |
| Depreciation and amortization expense | \$ | 1,600                                   | \$ 1,489    |

**5. Internally Developed Software**

Internally developed software consists of the following:

|                                    | <b>Estimated Useful Life</b> |    | <b>March 31,<br/>2015</b> |    | <b>December 31,<br/>2014</b> |
|------------------------------------|------------------------------|----|---------------------------|----|------------------------------|
| Internally developed software      | 5 years                      | \$ | 20,709                    | \$ | 19,577                       |
| Less accumulated amortization      |                              |    | (13,154)                  |    | (12,554)                     |
| Internally developed software, net |                              | \$ | 7,555                     | \$ | 7,023                        |

Amortization expense was as follows:

|                      |    | <b>Three Months Ended<br/>March 31,</b> |             |
|----------------------|----|---|-------------|
|                      |    | <b>2015</b>                             | <b>2014</b> |
| Amortization expense | \$ | 600                                     | \$ 489      |

**6. Intangible Assets**

Intangible assets consist of the following:



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

|                          | Useful Life   | March 31, 2015        |                          |                     | December 31, 2014     |                          |                     |
|--------------------------|---------------|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
|                          |               | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Customer lists           | 4 - 12 years  | \$ 68,603             | \$ (24,015)              | \$ 44,588           | \$ 68,603             | \$ (21,699)              | \$ 46,904           |
| Proprietary technologies | 1.5 - 8 years | 18,671                | (6,458)                  | 12,213              | 15,678                | (5,808)                  | 9,870               |
| Trade names              | 5 years       | 3,090                 | (1,377)                  | 1,713               | 3,090                 | (1,210)                  | 1,880               |
| Total intangible assets  |               | \$ 90,364             | \$ (31,850)              | \$ 58,514           | \$ 87,371             | \$ (28,717)              | \$ 58,654           |

Amortization expense was as follows:

|                      | Three Months Ended |          |
|----------------------|--------------------|----------|
|                      | 2015               | 2014     |
| Amortization expense | \$ 3,133           | \$ 2,444 |

Table of Contents**Investnet, Inc.****Notes to Unaudited Condensed Consolidated Financial Statements****(in thousands, except share and per share amounts)****7. Other Non-Current Assets**

Other non-current assets consist of the following:

|   | <b>March 31,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|---|---------------------------|------------------------------|
| Investment in private company               | \$ 1,250                  | \$ 1,250                     |
| Deposits:                                   |                           |                              |
| Lease                                       | 1,811                     | 1,811                        |
| Other                                       | 474                       | 436                          |
| Unamortized convertible debt issuance costs | 4,418                     | 4,612                        |
| Other                                       | 1,893                     | 1,407                        |
|   | <b>\$ 9,846</b>           | <b>\$ 9,516</b>              |

**8. 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 1: Inputs based on quoted market prices in active markets for identical assets or liabilities at the measurement date.
- Level 2: 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.

## Edgar Filing: ENVESTNET, INC. - Form 10-Q

Level 3: 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 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. 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. These money-market funds totaled approximately \$52,721 and \$70,760 as of March 31, 2015 and December 31, 2014, respectively, and are included in cash and cash equivalents in the condensed consolidated balance sheets.

The fair value of the contingent consideration liability related to the WMS acquisition on July 1, 2013 was estimated using a discounted cash flow method with significant inputs that are not observable in the market and thus represents a Level 3 fair value measurement as defined in ASC 820, *Fair Value Measurements and Disclosures*. The significant inputs in the Level 3 measurement not supported by market activity included our assessments of expected future cash flows related to our acquisition of WMS during the subsequent three years from the date of acquisition, appropriately discounted considering the uncertainties associated with the obligation, and calculated in accordance with the terms of the agreement.

Table of Contents**Envestnet, Inc.****Notes to Unaudited Condensed Consolidated Financial Statements****(in thousands, except share and per share amounts)**

The Company utilized a discounted cash flow method with expected future performance of WMS, and its ability to meet the target performance objectives as the main driver of the valuation, to arrive at the fair value of the contingent consideration. The Company will continue to reassess the fair value of the contingent consideration at each reporting date until settlement. Changes to the estimated fair value of the contingent consideration will be recognized in earnings of the Company.

The fair value of the contingent consideration liability related to the Klein acquisition on July 1, 2014 was estimated using a discounted cash flow method with significant inputs that are not observable in the market and thus represents a Level 3 fair value measurement as defined in ASC 820, *Fair Value Measurements and Disclosures*. The significant inputs in the Level 3 measurement not supported by market activity included our assessments of expected future cash flows related to our acquisition of Klein during the subsequent three years 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 Klein to arrive at the fair value of the contingent consideration. The Company will continue to reassess the fair value of the contingent consideration at each reporting date until settlement. Changes to the estimated fair value of the contingent consideration will be recognized in earnings of the Company.

The table below sets forth a summary of changes in the fair value of the Company's Level 3 liability for the three months ended March 31, 2015:

|                               | <b>Fair Value of<br/>Contingent<br/>Consideration<br/>Liabilities</b> |
|-------------------------------|---|
| Balance at December 31, 2014  | \$ 13,867   |
| Fair market value adjustments | (1,446)   |
| Imputed interest              | 342   |
| Balance at March 31, 2015     | \$ 12,763   |

The Company assesses the 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 1, 2 and 3 during the quarter.

## Edgar Filing: ENVESTNET, INC. - Form 10-Q

Following are the carrying and fair value of the Company's debt obligation as of December 31, 2014. The fair value of the Convertible Notes was calculated using observable market data and is considered a Level 1 liability.

|  | March 31, 2015 |            |
|--|----------------|------------|
|  | Carrying Value | Fair Value |
| 2019 Convertible Notes (principal amount outstanding of \$172,500) | \$ 146,411(1)  | \$ 195,489 |

---

(1) Represents the aggregate principal amount outstanding of the Convertible Notes less the unaccreted discount.

Table of Contents**Envestnet, Inc.****Notes to Unaudited Condensed Consolidated Financial Statements****(in thousands, except share and per share amounts)****9. Accrued Expenses**

Accrued expenses consist of the following:

|   | <b>March 31,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|---|---------------------------|------------------------------|
| Accrued investment manager fees         | \$ 26,433                 | \$ 25,195                    |
| Accrued compensation and related taxes  | 13,931                    | 18,344                       |
| Accrued professional services           | 697                       | 536                          |
| Estimated accrued software license fees | 800                       | 800                          |
| Other accrued expenses                  | 5,285                     | 3,372                        |
|   | \$ 47,146                 | \$ 48,247                    |

**10. Income Taxes**

The following table includes the Company's income before income tax provision, income tax provision and effective tax rate:

|                                    | <b>Three Months Ended<br/>March 31,</b> |             |
|------------------------------------|---|-------------|
|                                    | <b>2015</b>                             | <b>2014</b> |
| Income before income tax provision | \$ 4,479                                | \$ 4,152    |
| Income tax provision               | 1,968                                   | 1,284       |
| Effective tax rate                 | 43.9%                                   | 30.9%       |

The Company's effective tax rate in the three months ended March 31, 2015, was higher than the effective tax rate in the three months ended March 31, 2014, primarily due to the increase in tax rate for federal purposes from 34% to 35%, the true-up on India unremitted earnings that was recorded in the three months ended March 31, 2014 and not in the same period in 2015, and the release of certain uncertain tax position reserves in the three months ended March 31, 2014 that were not repeated in the same period in 2015.

The liability for unrecognized tax benefits reported in other non-current liabilities was \$2,081 and \$2,092 at March 31, 2015 and December 31, 2014, respectively. At March 31, 2015, the amount of unrecognized tax benefits that would benefit the Company's effective tax rate, if

## Edgar Filing: ENVESTNET, INC. - Form 10-Q

recognized, was \$1,962. At this time, the Company estimates it is reasonably possible that the liability for unrecognized tax benefits will decrease by as much as \$1,217 in the next twelve months due to the completion of reviews by tax authorities, the voluntary filing of certain state income taxes and the expiration of certain statutes of limitations.

The Company recognizes potential interest and penalties related to unrecognized tax benefits in income tax expense. The Company had accrued interest and penalties of \$568 and \$594 as of March 31, 2015 and December 31, 2014, 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's tax returns for the calendar years ended December 31, 2013, 2012, and 2011 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, 2013, 2012, 2011, 2010 and 2009 remain open to examination by various state revenue services.

The Company's Indian subsidiary is currently under examination by the India Tax Authority for the fiscal year ended March 31, 2009, 2011 and 2012. It is possible that one or more of these audits may be finalized within the next twelve months.

Included in prepaid expenses and other current assets on the condensed consolidated balance sheet as of March 31, 2015 is \$13,355 primarily related to excess tax benefits from stock-based compensation.

Table of Contents**Envestnet, Inc.****Notes to Unaudited Condensed Consolidated Financial Statements****(in thousands, except share and per share amounts)****11. Debt**

The Company's outstanding debt obligations were as follows:

|  | <b>March 31,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|--|---------------------------|------------------------------|
| Convertible Notes                        | \$ 172,500                | \$ 172,500                   |
| Unaccreted discount on Convertible Notes | (26,089)                  | (27,297)                     |
|  | <b>\$ 146,411</b>         | <b>\$ 145,203</b>            |

***Credit Agreement***

In 2014, the Company and certain of its subsidiaries entered into a credit agreement (the *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 \$100,000 with a sublimit for the issuance of letters of credit of \$5,000. Subject to certain conditions, the Company has the right to increase the facility by up to \$25,000. The *Credit Agreement* is scheduled to mature on December 8, 2017, at which time any aggregate principal amount of borrowings outstanding would become payable in full. Any borrowings made under the *Credit Agreement* accrued interest at rates between 1.50 percent and 3.25 percent above LIBOR based on the Company's total leverage ratio. There is also a commitment fee equal to 0.25 percent per annum on the daily unused portion of the facility.

Borrowings under the *Credit Agreement* will be guaranteed by substantially all of the Company's U.S. subsidiaries. Proceeds under the *Credit Agreement* may be used to finance capital expenditures, to finance working capital, to finance permitted acquisitions and for general corporate purposes.

The *Credit Agreement* contains customary conditions, representations and warranties, affirmative and negative covenants and events of default. The covenants include certain financial covenants requiring the Company 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 the Company 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 March 31, 2015, there were no amounts outstanding under the *Credit Agreement*. The Company was in compliance with all covenants of the *Credit Agreement* as of March 31, 2015.



*Convertible Notes*

On December 15, 2014, the Company issued \$172,500 of Convertible Notes. Net proceeds from the offering were \$166,967. The Convertible Notes bear interest at a rate of 1.75 percent per annum payable semiannually in arrears on June 15 and December 15 of each year, beginning on June 15, 2015.

The Convertible Notes are general unsecured obligations, subordinated in right of payment to our obligations under our Credit Agreement. The Convertible Notes 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 will be structurally subordinated to the indebtedness and other liabilities of any of our subsidiaries, other than to the extent the Convertible Notes 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 for cash at 100% of the principal amount of the Convertible Notes being purchased, plus any accrued and unpaid interest.

Table of Contents**Investnet, Inc.****Notes to Unaudited Condensed Consolidated Financial Statements****(in thousands, except share and per share amounts)**

The Convertible Notes 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 \$1 principal amount of the Convertible Notes, which represents a conversion price of \$62.88 per share, subject to adjustment under certain conditions. Holders may convert their Convertible Notes 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 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 for the Convertible Notes 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 has separately accounted for the liability and equity components of the Convertible Notes by allocating the proceeds from issuance of the Convertible Notes 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 of \$27,500 which will be accreted and recorded as additional interest expense over the life of the Convertible Notes. During the three-month period ended March 31, 2015, the Company recognized \$1,210 in accretion related to the discount. The effective interest rate of the liability component of the Convertible Notes 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 for the three-month period ended March 31, 2015 was 6.1%.

In connection with the issuance of the Convertible Notes, the Company incurred \$4,651 of issuance costs, which are recorded in other non-current assets (see Note 7). These costs are being amortized and are recorded as additional interest expense over the life of the Convertible Notes.

Interest expense on the Convertible Notes was comprised of the following:

|                                | <b>March 31,<br/>2015</b> |
|--------------------------------|---------------------------|
| Coupon interest                | \$ 755                    |
| Amortization of issuance costs | 241                       |

|                            |    |       |
|----------------------------|----|-------|
| Accretion of debt discount |    | 1,210 |
|                            | \$ | 2,206 |

See Note 13 for further discussion of the effect of conversion on net income per common share.

**12. Stock-Based Compensation**

The Company has stock options and restricted stock outstanding under the 2004 Stock Incentive Plan (the 2004 Plan ), the 2010 Long-Term Incentive Plan (the 2010 Plan ) and the Envestnet, Inc. Management Incentive Plan for Envestnet | Tamarac Management Employees (the 2012 Plan ). As of March 31, 2015, the maximum number of stock options and restricted stock available for future issuance under the Company's plans is 411,411.

Table of Contents

**Investnet, Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

(in thousands, except share and per share amounts)

Employee stock-based compensation expense under the Company's plans was as follows:

|   | Three Months Ended<br>March 31, |          |
|---|---------------------------------|----------|
|   | 2015                            | 2014     |
| Employee stock-based compensation expense               | \$ 3,419                        | \$ 2,568 |
| Tax effect on employee stock-based compensation expense | (1,502)                         | (1,027)  |
| Net effect on income                                    | \$ 1,917                        | \$ 1,541 |

*Stock Options*

The following weighted average assumptions were used to value options granted during the periods indicated:

|                                  | Three Months Ended<br>March 31, |          |
|----------------------------------|---------------------------------|----------|
|                                  | 2015                            | 2014     |
| Grant date fair value of options | \$ 21.15                        | \$ 16.81 |
| Volatility                       | 37.5%                           | 38.7%    |
| Risk-free interest rate          | 1.7%                            | 1.8%     |
| Dividend yield                   | 0.0%                            | 0.0%     |
| Expected term (in years)         | 6.0                             | 6.0      |

The following table summarizes option activity under the Company's plans:

|                                     | Options   | Weighted-<br>Average<br>Exercise Price | Weighted-<br>Average<br>Remaining<br>Contractual<br>Life (Years) | Aggregate<br>Intrinsic Value |
|-------------------------------------|-----------|--|--|------------------------------|
| Outstanding as of December 31, 2014 | 4,265,337 | \$ 10.73                               |  |                              |
| Granted                             | 148,677   | 54.02                                  |  |                              |
| Exercised                           | (415,512) | 8.93                                   |  |                              |
| Forfeited                           | (9,941)   | 24.94                                  |  |                              |

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

|                                  |           |       |     |    |         |
|----------------------------------|-----------|-------|-----|----|---------|
| Outstanding as of March 31, 2015 | 3,988,561 | 12.50 | 4.8 | \$ | 173,837 |
| Options exercisable              | 3,539,385 | 9.31  | 4.2 |    | 165,525 |

Exercise prices of stock options outstanding as of March 31, 2015 range from \$0.11 to \$55.29. At March 31, 2015, there was \$5,780 of unrecognized stock-based compensation expense related to unvested stock options, which the Company expects to recognize over a weighted-average period of 2.5 years.

Table of Contents**Envestnet, Inc.****Notes to Unaudited Condensed Consolidated Financial Statements****(in thousands, except share and per share amounts)***Restricted Stock*

Periodically, the Company grants restricted stock awards to employees that vest one-third on each of the first three anniversaries of the grant date. The following is a summary of the activity for unvested restricted stock awards granted under the Company's plans:

|                              | Number of<br>Shares | Weighted-<br>Average Grant<br>Date Fair Value<br>per Share |
|------------------------------|---------------------|--|
| Balance at December 31, 2014 | 1,098,674           | \$ 33.72   |
| Granted                      | 207,531             | 53.89  |
| Vested                       | (176,532)           | 26.30  |
| Forfeited                    | (6,637)             | 33.53  |
| Balance at March 31, 2015    | 1,123,036           | 38.61  |

At March 31, 2015, there was \$22,066 of unrecognized stock-based compensation expense related to unvested restricted stock awards, which the Company expects to recognize over a weighted-average period of 2.5 years. At March 31, 2015, there was an additional \$2,038 of potential unrecognized stock-based compensation expense related to unvested restricted stock granted under the 2012 Plan that vests based upon Tamarac meeting certain performance conditions and then a subsequent two-year service condition, which the Company expects to recognize over the remaining estimated vesting period of 2.0 years.

On March 31, 2015, 87,381 shares of restricted stock granted under the 2012 Plan became performance vested under the third year performance condition. These shares will become fully vested upon employees meeting the subsequent two-year service condition.

**13. Earnings Per Share**

Basic net income per common share is computed by dividing net income 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 and Convertible Notes using the treasury stock method.

## Edgar Filing: ENVESTNET, INC. - Form 10-Q

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 income per share until the Company's stock price exceeds the conversion price of \$62.88 per share. In the period of conversion, the Convertible Notes will have no impact on diluted net income if the Convertible Notes are settled in cash and will have an impact on dilutive net income per share if the Convertible Notes are settled in shares upon conversion.

Table of Contents**Investnet, Inc.****Notes to Unaudited Condensed Consolidated Financial Statements****(in thousands, except share and per share amounts)**

The following table provides a reconciliation of the numerators and denominators used in computing basic and diluted net income per share attributable to Investnet, Inc.:

|   | <b>Three Months Ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2015</b>                             | <b>2014</b> |
| Net income attributable to Investnet, Inc.            | \$ 2,511                                | \$ 2,994    |
| Basic number of weighted-average shares outstanding   | 35,147,043                              | 34,115,444  |
| Effect of dilutive shares:                            |   |             |
| Options to purchase common stock                      | 1,988,124                               | 2,230,313   |
| Unvested restricted stock                             | 181,767                                 | 213,226     |
| Diluted number of weighted-average shares outstanding | 37,316,934                              | 36,558,983  |
| Net income per share attributable to Investnet, Inc.: |   |             |
| Basic   | \$ 0.07                                 | \$ 0.09     |
| Diluted   | \$ 0.07                                 | \$ 0.08     |

Common share equivalents for securities that were anti-dilutive or otherwise excluded from the computation of diluted net income per share attributable to Investnet, Inc. were as follows:

|   | <b>Three Months Ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2015</b>                             | <b>2014</b> |
| Options to purchase common stock                      | 148,677                                 |             |
| Unvested restricted stock                             | 103,691                                 | 87,381      |
| Ungranted unvested restricted stock related to Upside | 132,384                                 |             |
| Convertible notes                                     | 2,743,321                               |             |
| Total   | 3,128,073                               | 87,381      |

**14. Major Customers**

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



|          | Three Months Ended |      |
|----------|--------------------|------|
|          | 2015               | 2014 |
| Fidelity | 18%                | 19%  |

**15. Commitments and Contingencies**

The Company is involved in litigation arising in the ordinary course of its business. The Company does not believe that the outcome of any of the current litigation, individually or in the aggregate, would, if determined adversely to it, have a material adverse effect on the Company's results of operations, financial condition, cash flows or business.

Table of Contents**Investnet, Inc.****Notes to Unaudited Condensed Consolidated Financial Statements****(in thousands, except share and per share amounts)**

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 condensed consolidated balance sheets.

The Company rents office space under leases that expire at various dates through 2026. Future minimum lease commitments under these operating leases, as of March 31, 2015, were as follows:

**Years ending December 31:**

|                   |    |        |
|-------------------|----|--------|
| Remainder of 2015 | \$ | 6,791  |
| 2016              |    | 7,917  |
| 2017              |    | 7,208  |
| 2018              |    | 6,727  |
| 2019              |    | 6,628  |
| Thereafter        |    | 23,238 |
| Total             | \$ | 58,509 |

**16. Subsequent Events***AlphaHedge Capital Partners, LLC*

On April 1, 2015, the Company purchased 150,000 Class B units representing 10.3% of the outstanding membership interests of AlphaHedge Capital Partners, LLC, ( AlphaHedge ) a Delaware limited liability company for cash consideration of \$1,500. AlphaHedge is a liquid alternatives platform providing access to strategies from a select group of long/short equity managers in a custodian agnostic, separately managed account format.

*Oltis Software LLC*

## Edgar Filing: ENVESTNET, INC. - Form 10-Q

On May 6, 2015, the Company announced that it has entered into a membership interest purchase agreement (the Agreement ), dated May 6, 2015, with Oleg Tishkevich ( Seller ) pursuant to which the Company has purchased (the Acquisition ) all of the issued and outstanding membership interests of Oltis Software LLC (d/b/a Finance Logix), an Arizona limited liability company ( Finance Logix ). Finance Logix® provides financial planning and wealth management software solutions banks, broker-dealers and RIAs.

Under the terms of the Agreement, the Company paid upfront consideration of approximately \$24,000 in cash, 123,410 in shares of Envestnet common stock and 123,410 stock options to acquire Envestnet common stock at \$52.67 per share. The Company has also agreed to pay an earn-out (in a mix of cash, stock and options) over a three year period, subject to Finance Logix meeting certain financial targets and other customary conditions.

Table of Contents

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*Unless otherwise indicated, the terms Envestnet, the Company, we, us and our refer to Envestnet, Inc. and its subsidiaries.*

*Unless otherwise indicated, all amounts are in thousands, except share and per share information, numbers of financial advisors and client accounts.*

**Forward-Looking Statements**

*This quarterly report on Form 10-Q contains forward-looking statements regarding future events and our future results within the meaning of the Private Securities Litigation Reform Act of 1995. 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 should or the 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. Forward-looking statements may include, among others, statements relating to:*

- *difficulty in sustaining rapid revenue growth, which may place significant demands on the Company's administrative, operational and financial resources,*
- *fluctuations in the Company's revenue,*
- *the concentration of nearly all of the Company's revenues from the delivery of investment solutions and services to clients in the financial advisory industry,*
- *the impact of market and economic conditions on the Company's revenues,*
- *the Company's reliance on a limited number of clients for a material portion of its revenue,*

## Edgar Filing: ENVESTNET, INC. - Form 10-Q

- *the renegotiation of fee percentages or termination of the Company's services by its clients,*
- *the Company's ability to identify potential acquisition candidates, complete acquisitions and successfully integrate acquired companies,*
- *compliance failures,*
- *regulatory actions against the Company,*
- *the failure to protect the Company's intellectual property rights,*
- *the Company's inability to successfully execute the conversion of its clients' assets from their technology platform to the Company's technology platform in a timely and accurate manner,*
- *general economic conditions, political and regulatory conditions,*
- *the impact of fluctuations in interest rates on the Company's business*
- *market conditions and our ability to issue additional debt and equity, and*
- *management's response to these 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*

Table of Contents

*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 quarterly report or to reflect the occurrence of unanticipated events. 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.*

*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 quarterly report are set forth in Part I under Risk Factors ; accordingly, investors should not place undue reliance upon our forward-looking statements. We undertake no obligation to update any of the forward-looking statements after the date of this report to conform those statements to reflect the occurrence of unanticipated events, except as required by applicable law.*

*You should read this quarterly report on Form 10-Q and our annual report on Form 10-K for the year ended December 31, 2014 (the 2014 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 condensed consolidated financial statements and the related notes included elsewhere in this quarterly report and the consolidated financial statements and related notes included in our 2014 Form 10-K. 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.*

**Overview**

We are a leading provider of unified wealth management software and services to financial advisors and institutions. By integrating a wide range of investment solutions and services, our technology platforms provide financial advisors with the flexibility to address their clients' needs. As of March 31, 2015, approximately 41,300 advisors used our technology platforms, supporting approximately \$749 billion of assets in approximately 3.0 million investor accounts.

Investnet empowers financial advisors to deliver fee-based advice to their clients. We work with both independent registered investment advisors ( RIAs ), as well as advisors associated with financial institutions such as broker-dealers and banks. The services we offer and market to financial advisors address the advisors' ability to grow their practice as well as to operate more efficiently. The Investnet platforms span the various elements of the wealth management process, from the initial meeting an advisor has with a prospective client to the ongoing day-to-day operations of managing an advisory practice.

Our centrally-hosted technology platforms, which we refer to as having "open architecture" because of their flexibility, provide financial advisors with access to a series of integrated services to help them better serve their clients. These services include risk assessment and selection of

## Edgar Filing: ENVESTNET, INC. - Form 10-Q

investment strategies and solutions, asset allocation models, research and due diligence, 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, as well as access to a wide range of leading third-party asset custodians.

We offer these solutions principally through the following product and service suites:

- Envestnet's wealth management software empowers advisors to better manage client outcomes and strengthen their practice. Our software unifies the applications and services advisors use to manage their practice and advise their clients, including financial planning; capital markets assumptions; asset allocation guidance; research and due diligence on investment managers and funds; portfolio management, trading and rebalancing; multi-custodial, aggregated performance reporting; and billing calculation and administration.
- Envestnet | PMC, provides consulting services provide financial advisors with additional support in addressing their clients' needs, as well as the creation of proprietary investment solutions and products. Envestnet | PMC's investment solutions and products include managed account and multi-manager portfolios, mutual fund portfolios and Exchange Traded Fund (ETF) portfolios. Envestnet | PMC also offers Prima Premium Research, comprising institutional-quality research and due diligence on investment managers, mutual funds, ETFs and liquid alternatives funds.

Table of Contents

- Envestnet | Tamarac provides leading portfolio accounting, rebalancing, trading, performance reporting and client relationship management ( CRM ) software, principally to high-end RIAs.
- Vantage Reporting Solution software aggregates and manages investment data, provides performance reporting and benchmarking, giving advisors an in-depth view of clients' various investments, empowering advisors to give holistic, personalized advice and consulting.
- Envestnet | WMS offers financial institutions access to an integrated wealth platform, which helps construct and manage sophisticated portfolio solutions across an entire account life cycle, particularly in the area of unified managed account ( UMA ) trading. Envestnet | WMS's Overlay Portfolio Management console helps wealth managers efficiently build customized client portfolios that consider both proprietary and open-architecture investment solutions.
- Envestnet | Placemark develops UMA programs and other portfolio management outsourcing solutions, including patented portfolio overlay and tax optimization services, for banks, full service broker-dealers and RIA firms.

***Operational Highlights***

Revenues from assets under management ( AUM ) or assets under administration ( AUA ) or collectively ( AUM/AUA ) increased 21% from \$67,081 in the three months ended March 31, 2014 to \$81,077 in the three months ended March 31, 2015. Total revenues, which include licensing and professional service fees, increased 23% from \$78,539 in the three months ended March 31, 2014 to \$96,454 in the three months ended March 31, 2015.

The increase in total revenues was a result of the positive effects of new account growth and positive net flows of AUM/AUA, as well as an increase in revenues resulting from the October 2014 acquisition of Placemark Holdings, Inc. ( Placemark ). Net income attributable to Envestnet, Inc. for the three months ended March 31, 2015 was \$2,511, or \$0.07 per diluted share, compared to \$2,994, or \$0.08 per diluted share for the three months ended March 31, 2014.

Adjusted revenues for the three months ended March 31, 2015 was \$96,454, an increase of 23% from \$78,539 in the prior year period. Adjusted EBITDA for the three months ended March 31, 2015 was \$16,814, an increase of 43% from \$11,771 in the prior year period. Adjusted net income for the three months ended March 31, 2015 was \$8,248, or \$0.22 per diluted share, compared to adjusted net income of \$6,301, or \$0.17 per diluted share in the prior year period.

Adjusted revenues, adjusted EBITDA, adjusted net income and adjusted net income per share are non-GAAP financial measures. See Non-GAAP Financial Measures for a discussion of non-GAAP measures and a reconciliation of such measures to the most directly comparable GAAP measures.



***Recent Events***

*Upside Holdings, Inc.*

On February 24, 2015, Envestnet acquired all of the stock of Upside Holdings, Inc. (including its subsidiaries Upside ) for cash consideration totaling \$3,040, subject to certain post-closing adjustments.

Upside is a technology company that is registered as an Internet Investment Adviser under Rule 203A-2(f) of the Investment Advisers Act of 1940 ( Advisers Act ). Upside helps financial advisors compete against other digital advisors, or robo advisors, by leveraging technology and algorithms to advise, manage, and serve clients who want personalized investment services.

Envestnet acquired Upside to integrate its technology within our unified wealth management platform, which will allow advisors to compete more aggressively to engage their clients online and reach a new class of investors.

As a result of the acquisition of Upside, Envestnet provided for the future grant of unvested restricted stock awards to Upside employees at the end of each year in 2015, 2016 and 2017 upon Upside meeting certain performance conditions and then a subsequent two year service condition (Note 13). If 100 percent of the awards are earned for 2015, 2016 and 2017, the maximum number of shares that could be granted for 2015, 2016 and 2017 equals 22,064, 44,128 and 66,192 shares of common stock, respectively.

Table of Contents

*AlphaHedge Capital Partners, LLC*

On April 1, 2015, Envestnet purchased 150,000 Class B units representing 10.3% of the outstanding membership interests of AlphaHedge Capital Partners, LLC, ( AlphaHedge ) a Delaware limited liability company for cash consideration of \$1,500. AlphaHedge is a liquid alternatives platform providing access to strategies from a select group of long/short equity managers in a custodian agnostic, separately managed account format.

*Oltis Software LLC*

On May 6, 2015, Envestnet announced that it has entered into a membership interest purchase agreement (the Agreement ), dated May 6, 2015, with Oleg Tishkevich ( Seller ) pursuant to which Envestnet has purchased (the Acquisition ) all of the issued and outstanding membership interests of Oltis Software LLC (d/b/a Finance Logix), an Arizona limited liability company ( Finance Logix ). Finance Logix® provides financial planning and wealth management software solutions banks, broker-dealers and RIAs.

Under the terms of the Agreement, Envestnet paid upfront consideration of approximately \$24,000 in cash, 123,410 in shares of Envestnet common stock and 123,410 stock options to acquire Envestnet common stock at \$52.67 per share. Envestnet has also agreed to pay an earn-out (in a mix of cash, stock and options) over a three year period, subject to Finance Logix meeting certain financial targets and other customary conditions.

**Key Operating Metrics**

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

AUM/A metrics in the table below include Placemark, which added approximately \$15.4 billion in assets, 45,000 accounts and 3,400 advisors as of October 1, 2014.

|                                   | March 31,<br>2014                               | June 30,<br>2014 | As of<br>September 30,<br>2014 | December 31,<br>2014 | March 31,<br>2015 |
|-----------------------------------|---|------------------|--------------------------------|----------------------|-------------------|
|                                   | (in millions, except accounts and advisor data) |                  |                                |                      |                   |
| <b>Platform Assets</b>            |   |                  |                                |                      |                   |
| Assets Under Management (AUM)     | \$ 49,383                                       | \$ 53,063        | \$ 54,935                      | \$ 72,120            | \$ 74,643         |
| Assets Under Administration (AUA) | 146,748   | 156,723          | 164,639                        | 174,249              | 181,239           |
| Subtotal AUM/A                    | 196,131   | 209,786          | 219,574                        | 246,369              | 255,882           |
| Licensing                         | 376,341   | 412,141          | 448,169                        | 466,982              | 493,284           |
| Total Platform Assets             | \$ 572,472                                      | \$ 621,927       | \$ 667,743                     | \$ 713,351           | \$ 749,166        |

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

| Platform Accounts       |           |           |           |           |           |
|-------------------------|-----------|-----------|-----------|-----------|-----------|
| AUM                     | 226,452   | 239,367   | 255,359   | 310,351   | 319,896   |
| AUA                     | 566,139   | 596,886   | 642,192   | 667,274   | 679,753   |
| Subtotal AUM/A          | 792,591   | 836,253   | 897,551   | 977,625   | 999,649   |
| Licensing               | 1,559,188 | 1,659,313 | 1,830,678 | 1,881,352 | 1,982,773 |
| Total Platform Accounts | 2,351,779 | 2,495,566 | 2,728,229 | 2,858,977 | 2,982,422 |
| Advisors                |           |           |           |           |           |
| AUM/A                   | 24,369    | 24,945    | 24,887    | 28,605    | 29,023    |
| Licensing               | 8,025     | 8,583     | 11,266    | 11,632    | 12,306    |
| Total Advisors          | 32,394    | 33,528    | 36,153    | 40,237    | 41,329    |

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 - Three Months Ended March 31, 2015 |                   |                  |  |                 |                 |                   |
|---|-------------------|------------------|--|-----------------|-----------------|-------------------|
|   | As of 12/31/14    | Gross Sales      | Redemptions<br>(in millions except account data) | Net Flows       | Market Impact   | As of 3/31/15     |
| <b>Assets under Management (AUM)</b>                  | \$ 72,120         | \$ 6,182         | \$ (4,287)                                       | \$ 1,895        | \$ 628          | \$ 74,643         |
| <b>Assets under Administration (AUA)</b>              | 174,249           | 15,816           | (10,929)   | 4,887           | 2,103           | 181,239           |
| <b>Total AUM/A</b>                                    | \$ <b>246,369</b> | \$ <b>21,998</b> | \$ <b>(15,216)</b>                               | \$ <b>6,782</b> | \$ <b>2,731</b> | \$ <b>255,882</b> |
| <i>Fee-Based Accounts</i>                             | <i>977,625</i>    | <i>77,770</i>    | <i>(55,746)</i>                                  | <i>22,024</i>   |                 | <i>999,649</i>    |

The above AUM/A gross sales figures include \$1.9 billion in new client conversions. The Company onboarded an additional \$15.4 billion in licensing conversions during the three months ended March 31, 2015.

Table of Contents

The mix of AUM and AUA was as follows for the periods indicated:

|                                   | March 31,<br>2014 | June 30,<br>2014 | September 30,<br>2014 | December 31,<br>2014 | March 31,<br>2015 |
|-----------------------------------|-------------------|------------------|-----------------------|----------------------|-------------------|
| Assets under management (AUM)     | 25%               | 25%              | 25%                   | 29%                  | 29%               |
| Assets under administration (AUA) | 75%               | 75%              | 75%                   | 71%                  | 71%               |
|                                   | 100%              | 100%             | 100%                  | 100%                 | 100%              |

Results of Operations

*Three months ended March 31, 2015 compared to three months ended March 31, 2014*

|  | Three Months Ended March 31, |           | Increase (Decrease) |       |
|--|------------------------------|-----------|---------------------|-------|
|  | 2015                         | 2014      | Amount              | %     |
|  | (in thousands)               |           |                     |       |
| <b>Revenues:</b>                                       |                              |           |                     |       |
| Assets under management or administration              | \$ 81,077                    | \$ 67,081 | \$ 13,996           | 21%   |
| Licensing and professional services                    | 15,377                       | 11,458    | 3,919               | 34%   |
| Total revenues   | 96,454                       | 78,539    | 17,915              | 23%   |
| <b>Operating expenses:</b>                             |                              |           |                     |       |
| Cost of revenues                                       | 38,695                       | 34,437    | 4,258               | 12%   |
| Compensation and benefits                              | 31,535                       | 23,459    | 8,076               | 34%   |
| General and administration                             | 14,209                       | 12,150    | 2,059               | 17%   |
| Depreciation and amortization                          | 5,333                        | 4,422     | 911                 | 21%   |
| Total operating expenses                               | 89,772                       | 74,468    | 15,304              | 21%   |
| Income from operations                                 | 6,682                        | 4,071     | 2,611               | 64%   |
| Other income (expense)                                 | (2,203)                      | 81        | (2,284)             | *     |
| Income before income tax provision                     | 4,479                        | 4,152     | 327                 | 8%    |
| Income tax provision                                   | 1,968                        | 1,284     | 684                 | 53%   |
| Net income   | 2,511                        | 2,868     | (357)               | -12%  |
| Add: Net loss attributable to non-controlling interest |                              | 126       | (126)               | -100% |
| Net income attributable to Envestnet, Inc.             | \$ 2,511                     | \$ 2,994  | \$ (483)            | -16%  |

\*Not meaningful.

**Revenues**

## Edgar Filing: ENVESTNET, INC. - Form 10-Q

Total revenues increased 23% from \$78,539 in the three months ended March 31, 2014 to \$96,454 in the three months ended March 31, 2015. The increase was primarily due to an increase in revenues from AUM or AUA of \$13,996. Revenues from AUM/A were 84% and 85% of total revenues in the three months ended March 31, 2015 and 2014, respectively.

### *Assets under management or administration*

Revenues earned from AUM/AUA increased 21% from \$67,081 in the three months ended March 31, 2014 to \$81,077 in the three months ended March 31, 2015. The increase was primarily due to an increase in asset values applicable to our quarterly billing cycle in 2015, relative to the corresponding period in 2014. In the first quarter of 2015, revenues were positively affected by new account growth and positive net flows of AUM or AUA during 2014, as well as an increase in revenues resulting from the Placemark acquisition.

The number of financial advisors with AUM or AUA on our technology platforms increased from 24,369 as of March 31, 2014 to 29,023 as of March 31, 2015 and the number of AUM or AUA client accounts increased from approximately 793,000 as of March 31, 2014 to approximately 999,000 as of March 31, 2015.

Table of Contents

***Licensing and professional services***

Licensing and professional services revenues increased 34% from \$11,458 in the three months ended March 31, 2014 to \$15,377 in the three months ended March 31, 2015, primarily due to an increase in licensing revenue of \$3,471 from an increase in the number of accounts in our licensing contracts and professional services revenue of \$378, respectively.

***Cost of revenues***

Cost of revenues increased 12% from \$34,437 in the three months ended March 31, 2014 to \$38,695 in the three months ended March 31, 2015, primarily due to a corresponding increase in revenues from AUM or AUA partially offset by Placemark revenue which is recognized net of manager fees. As a percentage of total revenues, cost of revenues decreased from 44% in the three months ended March 31, 2014 to 40% in the three months ended March 31, 2015.

***Compensation and benefits***

Compensation and benefits increased 34% from \$23,459 in the three months ended March 31, 2014 to \$31,535 in the three months ended March 31, 2015, primarily due to an increase in salaries, benefits and short term incentive compensation expense of \$6,221, primarily a result of an increase in headcount including headcount related to the Placemark acquisition. As a percentage of total revenues, compensation and benefits increased from 30% in the three months ended March 31, 2014 to 33% in the three months ended March 31, 2015.

***General and administration***

General and administration expenses increased 17% from \$12,150 in the three months ended March 31, 2014 to \$14,209 in the three months ended March 31, 2015, primarily due to increases in transaction costs of \$1,430, professional and legal fees of \$235, website and systems development costs of \$391, occupancy costs of \$243, travel and entertainment costs of \$458, and communication, research and data services costs of \$593, offset by downward adjustments to the estimated fair market values of contingent consideration amounts totaling \$1,446. As a percentage of total revenues, general and administration expenses was 15% in the three months ended March 31, 2014 and 2015.

***Depreciation and amortization***

Depreciation and amortization expense increased 21% from \$4,422 in the three months ended March 31, 2014 to \$5,333 in the three months ended March 31, 2015, primarily due to an increase in intangible asset amortization of \$1,253 as a result of the Placemark acquisition, offset by a reduction of \$469 in intangible asset amortization from the estimated useful life of the WMS technology being extended from 1.5 years to 2.5 years during Q3 of 2014. As a percentage of total revenues, depreciation and amortization expense was 6% in the three months ended March 31,

2014 and 2015.

***Other income (expense), net***

Other expense, net increased by \$2,284, primarily as a result of an increase in interest expense of \$2,356 as a result of the issuance of Convertible Notes in the fourth quarter of 2014. See Note 11 of notes to the condensed consolidated financial statements.

***Income tax provision***

|                      |    | <b>Three Months Ended</b> |    |             |
|----------------------|----|---------------------------|----|-------------|
|                      |    | <b>March 31,</b>          |    |             |
|                      |    | <b>2015</b>               |    | <b>2014</b> |
|                      |    | <b>(in thousands)</b>     |    |             |
| Income tax provision | \$ | 1,968                     | \$ | 1,284       |
| Effective tax rate   |    | 43.9%                     |    | 30.9%       |

For the three months ended March 31, 2015, our effective tax rate differs from the statutory rate primarily due to the effect of state taxes, permanent differences, an uncertain tax position current year accrual related to transfer pricing and non-recognition of a loss from a subsidiary due to a full valuation allowance. For the three months March 31, 2014, our effective tax rate differs from the statutory rate primarily due to the effect of state taxes, permanent differences, and recognition of previously unrecognized tax benefits.

Table of ContentsNon-GAAP Financial Measures

|                               | Three Months Ended<br>March 31, |                |    |        |
|-------------------------------|---------------------------------|----------------|----|--------|
|                               | 2015                            | (in thousands) |    | 2014   |
| Adjusted revenues             | \$                              | 96,454         | \$ | 78,539 |
| Adjusted EBITDA               |                                 | 16,814         |    | 11,771 |
| Adjusted net income           |                                 | 8,248          |    | 6,301  |
| Adjusted net income per share |                                 | 0.22           |    | 0.17   |

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 interest income, interest expense, accretion on contingent consideration, income tax provision, depreciation and amortization, non-cash compensation expense, restructuring charges and transaction costs, imputed interest on contingent consideration, fair market value adjustment on contingent consideration, severance, and pre-tax loss attributable to non-controlling interest.

Adjusted net income represents net income (loss) before non-cash interest expense, non-cash compensation expense, accretion on contingent consideration, restructuring charges and transaction costs, fair-market value adjustment on contingent consideration, severance, amortization of acquired intangibles, and net loss attributable to non-controlling interest. Reconciling items, excluding non-deductible transaction costs, are tax effected using the income tax rates in effect on the applicable date.

Adjusted net income per share represents adjusted net income 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.

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, income tax provision, restructuring charges and transaction costs, imputed interest on contingent consideration, fair market value adjustments on contingent consideration, severance, pre-tax 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

Table of Contents

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 U.S. GAAP and should not be considered as an alternative to revenues, net income, operating income or any other performance measures derived in accordance with U.S. 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 U.S. 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, or 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, or 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 expenses or the use of federal and state net operating loss carryforwards in 2015 and 2014, we had cash income tax payments, net of refunds, of \$475 and \$114 for the three months ended March 31, 2015 and 2014, 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.

## Edgar Filing: ENVESTNET, INC. - Form 10-Q

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 U.S. GAAP and reconciliation of adjusted revenues to revenues, the most directly comparable U.S. 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 U.S. GAAP measure. Further, our management also reviews U.S. GAAP 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:

|  | Three Months Ended<br>March 31, |           |
|--|---------------------------------|-----------|
|  | 2015                            | 2014      |
|  | (in thousands)                  |           |
| Total revenues                         | \$ 96,454                       | \$ 78,539 |
| Deferred revenue fair value adjustment |                                 |           |
| Adjusted revenues                      | \$ 96,454                       | \$ 78,539 |

Table of Contents

The following table sets forth a reconciliation of net income to adjusted EBITDA based on our historical results:

|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2015</b>                             | <b>2014</b> |
|  | (in thousands)                          |             |
| Net income   | \$ 2,511                                | \$ 2,868    |
| Add (deduct):  |   |             |
| Interest income  | (122)                                   | (81)        |
| Interest expense   | 2,356                                   |             |
| Accretion on contingent consideration                    | 342                                     | 412         |
| Income tax provision                                     | 1,968                                   | 1,284       |
| Depreciation and amortization                            | 5,333                                   | 4,422       |
| Non-cash compensation expense                            | 3,419                                   | 2,568       |
| Restructuring charges and transaction costs              | 1,430                                   | 104         |
| Fair market value adjustment on contingent consideration | (1,446)                                 |             |
| Severance expense  | 593                                     | 4           |
| Pre-tax loss attributable to non-controlling interest    | 430                                     | 190         |
| Adjusted EBITDA  | \$ 16,814                               | \$ 11,771   |

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

|  | <b>Three Months Ended<br/>March 31,</b> |              |
|--|---|--------------|
|  | <b>2015*</b>                            | <b>2014*</b> |
|  | (in thousands)                          |              |
| Net income   | \$ 2,511                                | \$ 2,868     |
| Add (deduct):  |   |              |
| Non-cash interest expense                                | 924                                     |              |
| Accretion on contingent consideration                    | 205                                     | 247          |
| Amortization of acquired intangibles                     | 1,883                                   | 1,467        |
| Non-cash compensation expense                            | 2,052                                   | 1,541        |
| Restructuring charges and transaction costs              | 928                                     | 62           |
| Fair market value adjustment on contingent consideration | (868)                                   |              |
| Severance expense  | 355                                     | 2            |
| Net loss attributable to non-controlling interest        | 258                                     | 114          |
| Adjusted net income                                      | 8,248                                   | 6,301        |
| Diluted number of weighted-average shares outstanding    | 37,316,934                              | 36,558,983   |
| Adjusted net income per share                            | \$ 0.22                                 | \$ 0.17      |

\* Adjustments, excluding non-deductible transaction costs, are tax effected using an income tax rate of 40.0% for 2015 and 2014.



Table of Contents**Liquidity and Capital Resources**

As of March 31, 2015, we had total cash and cash equivalents of \$209,914 compared to \$209,754 as of December 31, 2014. We plan to use existing cash as of March 31, 2015 and cash generated in the ongoing operations of our business to fund our current operations, capital expenditures and future acquisitions, investments and other strategic activity.

***Cash Flows***

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

|   | <b>Three Months Ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2015</b>                             | <b>2014</b> |
|   | <b>(in thousands)</b>                   |             |
| Net cash provided by (used in) operating activities | \$ (2,748)                              | \$ 6,319    |
| Net cash used in investing activities               | (5,831)                                 | (2,862)     |
| Net cash provided by (used in) financing activities | 8,739                                   | (770)       |
| Net increase in cash and cash equivalents           | 160                                     | 2,687       |
| Cash and cash equivalents, end of period            | 209,914                                 | 52,629      |

***Operating Activities***

Net cash used in operating activities for the three months ended March 31, 2015 increased by \$9,067 compared to the same period in 2014, primarily due to a decrease in net income of \$357, a decrease in non-cash adjustments totaling \$6,728, and a decrease in the change in operating assets and liabilities totaling \$1,982.

***Investing Activities***

Net cash used in investing activities for the three months ended March 31, 2015 increased by \$2,969 compared to the same period in 2014. The increase is primarily a result of an increase in cash disbursements for an acquisition of \$2,641.

***Financing Activities***

## Edgar Filing: ENVESTNET, INC. - Form 10-Q

Net cash provided by financing activities for the three months ended March 31, 2015 increased by \$9,509 compared to the same period in 2014, primarily a result of an increase in proceeds from the exercise of stock options of \$2,871 and an increase in the excess tax benefits from stock-based compensation of \$11,468, offset by an increase in treasury stock purchases for stock-based minimum tax withholdings of \$4,832.

### **Critical Accounting Estimates**

The preparation of financial statements and related disclosures in conformity with U.S. GAAP requires us to make judgments, assumptions, and estimates that affect the amounts reported in the Condensed Consolidated Financial Statements and accompanying notes. Note 2, Summary of Significant Accounting Policies, to the Consolidated Financial Statements in our most recent Form 10-K describes the significant accounting policies and methods used in the preparation of the Consolidated Financial Statements. Our critical accounting estimates, identified in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of our most recent Form 10-K include the discussion of estimates used for recognition of revenues, purchase accounting, internally developed software, non-cash stock-based compensation expense, and income taxes. Such accounting policies and estimates require significant judgments and assumptions to be used in the preparation of the Condensed Consolidated Financial Statements, and actual results could differ materially from the amounts reported.

Table of Contents**Commitments and Off-Balance Sheet Arrangements***Leases and Purchase Obligations*

The Company rents office space under leases that expire at various dates through 2026. Future minimum lease commitments under these operating leases, as of March 31, 2015, was as follows:

| <b>Years ending December 31:</b> |           |               |
|----------------------------------|-----------|---------------|
| Remainder of 2015                | \$        | 6,791         |
| 2016                             |           | 7,917         |
| 2017                             |           | 7,208         |
| 2018                             |           | 6,727         |
| 2019                             |           | 6,628         |
| Thereafter                       |           | 23,238        |
| <b>Total</b>                     | <b>\$</b> | <b>58,509</b> |

**Item 3. Quantitative and Qualitative Disclosures About Market Risk***Market risk*

Our exposure to market risk is directly related to revenues from asset management or administration services earned based upon a contractual percentage of AUM or AUA. In the three months ended March 31, 2015, 84% of our revenues were derived from revenues based on the market value of AUM or AUA. We expect this percentage to vary over time. A decrease in the aggregate value of AUM or AUA may cause our revenue and income to decline.

*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. For the three months ended March 31, 2015, 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 \$327 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 \$268, to pre-tax earnings.

*Interest rate risk*



We have no floating interest rate debt and therefore we are not directly exposed to interest rate risk.

**Item 4. Controls and Procedures**

*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 March 31, 2015. 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 recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures 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 accumulated and communicated to the Company's management, including its principal executive and 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 the evaluation of our disclosure controls and procedures as of March 31, 2015, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are not effective at the reasonable assurance level, because of an as yet unremediated material weakness in internal control over financial reporting related to controls over the portion of revenues and cost of revenues of a business that was acquired in 2013, Wealth Management Solutions, that was not migrated to the Envestnet core technology platform in 2014. We have also not yet remediated a

Table of Contents

lack of adequately designed or documented controls related to the financial statement review process, including the review of manual journal entries. The material weakness is further described below in Item 9A-Controls and Procedures in the 2014 Form 10-K.

***Changes in Internal Control Over Financial Reporting***

During the three months ended March 31, 2015, there were no changes to our internal control over financial reporting that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

***Remediation Plan***

Management is committed to remediating the material weakness discussed above in a timely fashion. We have begun the process of developing a remediation plan that will address the material weakness in internal control over financial reporting as discussed above. This remediation plan expected to be implemented will consider the following measures:

- During 2014, the Company migrated a subset of the WMS clients from the legacy WMS platform to the Envestnet core technology platform. During 2014, management validated all revenues related to such migrated clients that were computed using the legacy WMS platform against all revenues computed by the Envestnet core technology platform for the same migrated clients, and noted no variances. Additionally, Management anticipates that as of December 31, 2015, only one WMS client will remain on the WMS legacy platform, with final conversion expected in the first half of 2016. Upon completion of the conversion, the legacy WMS platform will no longer be utilized;
  
- Review and enhancement of our internal controls related to the legacy WMS platform;
  
- Review and enhancement of our internal controls related to the financial statement review process, including review controls over manual journal entries;
  
- Implementation of technology enhancements specifically identified to increase the use and effectiveness of preventive controls in the financial statement review process;
  
- Realignment of existing personnel and the addition of personnel to strengthen management's review and documentation over internal control over financial reporting.

## Edgar Filing: ENVESTNET, INC. - Form 10-Q

The Audit Committee has directed management to develop a detailed plan and timetable for the implementation of remedial measures and will monitor their implementation. In addition, under the direction of the Audit Committee, management will continue to review and make necessary changes to the overall design of the Company's internal control environment as well as policies and procedures to improve the overall effectiveness of internal control over financial reporting.

Management believes the measures described above and others that will be implemented will remediate the control deficiencies identified and will strengthen our internal control over financial reporting. Management is committed to continuous improvement of the Company's internal control processes and will continue to diligently review our financial reporting controls and procedures. As management continues to evaluate and work to improve internal control over financial reporting, we may take additional measures to address control deficiencies or determine to modify, or in appropriate circumstances not to complete, certain of the remediation measures described above. We expect these remedial actions and or other actions related to this material weakness to be effectively implemented in 2015.

If the remedial measures described above are insufficient to address the identified material weakness or are not implemented effectively, or additional deficiencies arise in the future, material misstatements in our interim or annual financial statements may occur in the future which could harm our business.

Table of Contents**PART II OTHER INFORMATION****Item 1. Legal Proceedings**

We are involved in litigation arising in the ordinary course of our business. We do not believe that the outcome of any of the current litigation, individually or in the aggregate, would, if determined adversely to us, have a material adverse effect on our results of operations, financial condition or business.

**Item 1A. Risk Factors**

Investment in our securities involves risk. An investor or potential investor should consider the risks summarized under the caption Risk Factors in Part I, Item 1A of our 2014 Form 10-K, when making investment decisions regarding our securities. The risk factors that were disclosed in our 2014 Form 10-K have not materially changed since the date our 2014 Form 10-K was filed.

**Item 2. Unregistered Sales of Equity Securities***Unregistered Sales of Equity Securities***(c) 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 |
|--|----------------------------------|------------------------------|--|--|
| January 1, 2015 through January 31, 2015   |                                  |                              |  |  |
| February 1, 2015 through February 28, 2015 | 57,713                           | \$ 53.83                     |  |  |
| March 1, 2015 through March 31, 2015       | 59,467                           | 56.08                        |  |  |

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

(a) *Exhibits*

See the exhibit index, which is incorporated herein by reference.

Table of Contents

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on May 8, 2015.

**ENVESTNET, INC.**

By: */s/ Judson Bergman*  
**Judson Bergman**  
*Chairman and Chief Executive Officer*  
*Principal Executive Officer*

By: */s/ Peter H. D Arrigo*  
**Peter H. D Arrigo**  
*Chief Financial Officer*  
*Principal Financial Officer*

By: */s/ Matthew J. Majoros*  
**Matthew J. Majoros**  
*Vice President, Financial Reporting*  
*Principal Accounting Officer*

Table of Contents

**INDEX TO EXHIBITS**

| <b>Exhibit<br/>No.</b> | <b>Description</b>  |
|------------------------|---|
| 31.1                   | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                       |
| 31.2                   | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                       |
| 32.1(1)                | 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 |
| 32.2(1)                | 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 |
| 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.

\* Attached as Exhibit 101 to this Quarterly Report on Form 10-Q are the following materials, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets as of March 31, 2015 and December 31, 2014; (ii) the Condensed Consolidated Statements of Operations for the three months ended March 31, 2015 and 2014; (iii) the Condensed Consolidated Statement of Equity for the three months ended March 31, 2015; (iv) the Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2015 and 2014; (v) Notes to Condensed Consolidated Financial Statements tagged as blocks of text.