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

# FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the quarterly period ended September 30, 2023**
**or**
☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the transition period from __________ to __________**

**Commission file number 001-34835**

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

| | |
|---|---|
| **Delaware** | **20-1409613** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S Employer Identification No.) |
| **1000 Chesterbrook Boulevard, Suite 250, Berwyn, Pennsylvania** | **19312** |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code:
**(312) 827-2800**

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading symbol(s) | Name of exchange on which registered |
|---|---|---|
| Common Stock, par value $0.005 per share | ENV | New York Stock Exchange |

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer ☒ | Accelerated filer ☐ |
| Non-accelerated filer ☐ | Smaller reporting company ☐ |
| | Emerging growth company ☐ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes ☐ No ☐
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒
As of November 3, 2023, Envestnet, Inc. had 54,656,335 shares of common stock outstanding.

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**Envestnet, Inc.**
**Condensed Consolidated Balance Sheets**
**(in thousands, except share and per share information)**
**(unaudited)**

| | September 30, 2023 | December 31, 2022 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $ 43,211 | $ 162,173 |
| Fees receivable, net | 110,643 | 101,696 |
| Prepaid expenses and other current assets | 49,299 | 41,363 |
| Total current assets | 203,153 | 305,232 |
| Property and equipment, net | 65,785 | 62,443 |
| Internally developed software, net | 217,411 | 184,558 |
| Intangible assets, net | 346,211 | 379,995 |
| Goodwill | 998,381 | 998,414 |
| Operating lease right-of-use assets, net | 72,929 | 81,596 |
| Other assets | 127,019 | 99,927 |
| Total assets | $ 2,030,889 | $ 2,112,165 |
| Liabilities and equity | | |
| Current liabilities: | | |
| Accounts payable, accrued expenses and other current liabilities | $ 224,385 | $ 233,866 |
| Operating lease liabilities | 13,297 | 11,949 |
| Deferred revenue | 32,563 | 36,363 |
| Current portion of debt | — | 44,886 |
| Total current liabilities | 270,245 | 327,064 |
| Debt | 875,390 | 871,769 |
| Operating lease liabilities, net of current portion | 102,717 | 110,652 |
| Deferred tax liabilities, net | 14,598 | 16,196 |
| Other liabilities | 16,138 | 18,880 |
| Total liabilities | 1,279,088 | 1,344,561 |
| Commitments and contingencies (note 19) | | |
| Stockholders' equity | | |
| Preferred stock, par value $0.005, 50,000,000 shares authorized; no shares issued and outstanding as of September 30, 2023 and December 31, 2022 | — | — |
| Common stock, par value $0.005, 500,000,000 shares authorized; 70,950,023 and 70,025,733 shares issued as of September 30, 2023 and December 31, 2022, respectively; 54,648,721 and 54,013,826 shares outstanding as of September 30, 2023 and December 31, 2022, respectively | 354 | 350 |
| Treasury stock at cost, 16,301,302 and 16,011,907 shares as of September 30, 2023 and December 31, 2022, respectively | (270,555) | (253,551) |
| Additional paid-in capital | 1,193,036 | 1,135,284 |
| Accumulated deficit | (174,480) | (118,927) |
| Accumulated other comprehensive loss | (4,559) | (8,589) |
| Total stockholders’ equity, attributable to Envestnet, Inc. | 743,796 | 754,567 |
| Non-controlling interest | 8,005 | 13,037 |
| Total equity | 751,801 | 767,604 |
| Total liabilities and equity | $ 2,030,889 | $ 2,112,165 |

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| Revenue: | | | | |
| Asset-based | $ 193,901 | $ 177,131 | $ 556,595 | $ 571,820 |
| Subscription-based | 114,939 | 123,747 | 346,977 | 356,601 |
| Total recurring revenue | 308,840 | 300,878 | 903,572 | 928,421 |
| Professional services and other revenue | 8,007 | 5,817 | 24,416 | 18,489 |
| Total revenue | 316,847 | 306,695 | 927,988 | 946,910 |
| Operating expenses: | | | | |
| Direct expense | 119,538 | 110,108 | 352,024 | 361,872 |
| Employee compensation | 113,334 | 116,837 | 344,646 | 369,453 |
| General and administrative | 49,063 | 47,388 | 156,028 | 157,867 |
| Depreciation and amortization | 34,311 | 33,408 | 101,058 | 97,208 |
| Total operating expenses | 316,246 | 307,741 | 953,756 | 986,400 |
| Income (loss) from operations | 601 | (1,046) | (25,768) | (39,490) |
| Other expense, net | (4,369) | (5,346) | (19,706) | (9,691) |
| Loss before income tax provision (benefit) | (3,768) | (6,392) | (45,474) | (49,181) |
| Income tax provision (benefit) | (8,824) | 2,271 | 15,363 | (1,542) |
| Net income (loss) | 5,056 | (8,663) | (60,837) | (47,639) |
| Add: Net loss attributable to non-controlling interest | 2,035 | 1,373 | 5,284 | 3,205 |
| Net income (loss) attributable to Envestnet, Inc. | $ 7,091 | $ (7,290) | $ (55,553) | $ (44,434) |
| Net income (loss) attributable to Envestnet, Inc. per share: | | | | |
| Basic | $ 0.13 | $ (0.13) | $ (1.02) | $ (0.81) |
| Diluted | $ 0.13 | $ (0.13) | $ (1.02) | $ (0.81) |
| Weighted average common shares outstanding: | | | | |
| Basic | 54,562,270 | 55,226,777 | 54,380,231 | 55,109,387 |
| Diluted | 54,970,616 | 55,226,777 | 54,380,231 | 55,109,387 |

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

**Envestnet, Inc.**
**Condensed Consolidated Statements of Comprehensive Income (Loss)**
**(in thousands)**
**(unaudited)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2023** | **2022** | **2023** | **2022** |
| Net income (loss) attributable to Envestnet, Inc. | $ 7,091 | $ (7,290) | $ (55,553) | $ (44,434) |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation adjustments | (151) | (1,479) | 4,030 | (6,050) |
| Total other comprehensive income (loss), net of tax | (151) | (1,479) | 4,030 | (6,050) |
| Comprehensive income (loss) attributable to Envestnet, Inc. | $ 6,940 | $ (8,769) | $ (51,523) | $ (50,484) |

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

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

| | Common Stock | | Treasury Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Loss | Accumulated Deficit | Non-Controlling Interest | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | | | |
| Balance, December 31, 2022 | 70,025,733 | $ 350 | (16,011,907) | $ (253,551) | $ 1,135,284 | $ (8,589) | $ (118,927) | $ 13,037 | $ 767,604 |
| Net loss | — | — | — | — | — | — | (41,228) | (1,533) | (42,761) |
| Other comprehensive income, net of tax | — | — | — | — | — | 4,277 | — | — | 4,277 |
| Stock-based compensation expense | — | — | — | — | 19,345 | — | — | 108 | 19,453 |
| Issuance of common stock, vesting of RSUs and PSUs | 524,316 | 2 | — | — | — | — | — | — | 2 |
| Net cash paid related to tax withholding for stock-based compensation | — | — | (173,612) | (10,732) | — | — | — | — | (10,732) |
| Proceeds from the exercise of stock options | 37,454 | — | — | — | 367 | — | — | — | 367 |
| Purchase of non-controlling units from third-party shareholders | — | — | — | — | (984) | — | — | (24) | (1,008) |
| Other | — | — | — | — | — | — | — | (22) | (22) |
| Balance, March 31, 2023 | 70,587,503 | 352 | (16,185,519) | (264,283) | $ 1,154,012 | (4,312) | (160,155) | 11,566 | 737,180 |
| Net loss | — | — | — | — | — | — | (21,416) | (1,716) | (23,132) |
| Other comprehensive loss, net of tax | — | — | — | — | — | (96) | — | — | (96) |
| Stock-based compensation expense | — | — | — | — | 21,347 | — | — | 43 | 21,390 |
| Issuance of common stock, vesting of RSUs and PSUs | 162,770 | 1 | — | — | — | — | — | — | 1 |
| Net cash paid related to tax withholding for stock-based compensation | — | — | (55,971) | (3,042) | — | — | — | — | (3,042) |
| Proceeds from the exercise of stock options | 2,500 | — | — | — | 105 | — | — | — | 105 |
| Other | — | — | — | — | — | — | — | 52 | 52 |
| Balance, June 30, 2023 | 70,752,773 | 353 | (16,241,490) | (267,325) | $ 1,175,464 | (4,408) | (181,571) | 9,945 | 732,458 |
| Net income (loss) | — | — | — | — | — | — | 7,091 | (2,035) | 5,056 |
| Other comprehensive loss, net of tax | — | — | — | — | — | (151) | — | — | (151) |
| Stock-based compensation expense | — | — | — | — | 17,205 | — | — | 93 | 17,298 |
| Issuance of common stock, vesting of RSUs and PSUs | 184,828 | 1 | — | — | — | — | — | — | 1 |
| Net cash paid related to tax withholding for stock-based compensation | — | — | (59,812) | (3,230) | — | — | — | — | (3,230) |
| Proceeds from the exercise of stock options | 12,422 | — | — | — | 367 | — | — | — | 367 |
| Other | — | — | — | — | — | — | — | 2 | 2 |
| Balance, September 30, 2023 | 70,950,023 | $ 354 | (16,301,302) | $ (270,555) | $ 1,193,036 | $ (4,559) | $ (174,480) | $ 8,005 | $ 751,801 |

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

| | Common Stock | | Treasury Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Loss | Accumulated Deficit | Non-Controlling Interest | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | | | |
| Balance, December 31, 2021 | 68,879,152 | $ 344 | (14,086,064) | $ (134,996) | $ 1,131,628 | $ (1,899) | $ (37,988) | $ 2,453 | $ 959,542 |
| Net loss | — | — | — | — | — | — | (13,859) | (849) | (14,708) |
| Other comprehensive loss, net of tax | — | — | — | — | — | (1,478) | — | — | (1,478) |
| Stock-based compensation expense | — | — | — | — | 21,690 | — | — | — | 21,690 |
| Issuance of common stock, vesting of RSUs and PSUs | 514,319 | 3 | — | — | — | — | — | — | 3 |
| Net cash paid related to tax withholding for stock-based compensation | — | — | (170,992) | (12,570) | — | — | — | — | (12,570) |
| Proceeds from the exercise of stock options | 38,681 | — | — | — | 658 | — | — | — | 658 |
| Other | — | — | — | — | (84) | — | — | 102 | 18 |
| Balance, March 31, 2022 | 69,432,152 | 347 | (14,257,056) | (147,566) | 1,153,892 | (3,377) | (51,847) | 1,706 | 953,155 |
| Net loss | — | — | — | — | — | — | (23,285) | (983) | (24,268) |
| Other comprehensive loss, net of tax | — | — | — | — | — | (3,093) | — | — | (3,093) |
| Stock-based compensation expense | — | — | — | — | 22,876 | — | — | — | 22,876 |
| Issuance of common stock, vesting of RSUs and PSUs | 232,328 | 1 | — | — | — | — | — | — | 1 |
| Net cash paid related to tax withholding for stock-based compensation | — | — | (78,506) | (5,543) | — | — | — | — | (5,543) |
| Proceeds from the exercise of stock options | 2,503 | — | — | — | 84 | — | — | — | 84 |
| Share repurchases | — | — | (152,020) | (9,235) | — | — | — | — | (9,235) |
| Other | — | — | — | — | (89) | — | — | 104 | 15 |
| Balance, June 30, 2022 | 69,666,983 | 348 | (14,487,582) | (162,344) | 1,176,763 | (6,470) | (75,132) | 827 | 933,992 |
| Net loss | — | — | — | — | — | — | (7,290) | (1,373) | (8,663) |
| Other comprehensive loss, net of tax | — | — | — | — | — | (1,479) | — | — | (1,479) |
| Stock-based compensation expense | — | — | — | — | 17,265 | — | — | — | 17,265 |
| Issuance of common stock, vesting of RSUs and PSUs | 162,187 | 1 | — | — | — | — | — | — | 1 |
| Net cash paid related to tax withholding for stock-based compensation | — | — | (55,984) | (2,500) | — | — | — | — | (2,500) |
| Proceeds from the exercise of stock options | 37,618 | — | — | — | 1,817 | — | — | — | 1,817 |
| Other | — | — | — | — | (221) | — | — | 72 | (149) |
| Balance, September 30, 2022 | 69,866,788 | $ 349 | (14,543,566) | $ (164,844) | $ 1,195,624 | $ (7,949) | $ (82,422) | $ (474) | $ 940,284 |

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

**Envestnet, Inc.**
**Condensed Consolidated Statements of Cash Flows**
**(in thousands)**
**(unaudited)**

| | Nine Months Ended September 30, 2023 | Nine Months Ended September 30, 2022 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | $ (60,837) | $ (47,639) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 101,058 | 97,208 |
| Deferred income taxes | (1,458) | (4,380) |
| Release of uncertain tax positions | — | (3,095) |
| Non-cash compensation expense | 58,141 | 62,583 |
| Non-cash interest expense | 6,822 | 5,436 |
| Loss allocations from equity method investments | 8,240 | 5,332 |
| Fair market value adjustment to investment in private company | (2,804) | — |
| Dilution gain on equity method investee share issuance | (546) | (6,934) |
| Lease related impairments | 2,483 | 14,050 |
| Loss on property and equipment disposals - office closures | — | 3,710 |
| Other | 1,155 | (149) |
| Changes in operating assets and liabilities: | | |
| Fees receivable, net | (9,621) | 1,546 |
| Prepaid expenses and other assets | (17,534) | (12,524) |
| Accounts payable, accrued expenses and other liabilities | (1,848) | (26,580) |
| Deferred revenue | (3,974) | (2,329) |
| Net cash provided by operating activities | 79,277 | 86,235 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (18,275) | (13,114) |
| Capitalization of internally developed software | (71,117) | (67,755) |
| Acquisitions of businesses, net of cash acquired | — | (104,185) |
| Investments in private companies | (4,175) | (16,351) |
| Acquisition of proprietary technology | (12,000) | (19,000) |
| Issuance of loan receivable to private company | (20,000) | — |
| Issuance of note receivable to equity method investees | — | (6,350) |
| Other | 400 | — |
| Net cash used in investing activities | (125,167) | (226,755) |
| Cash flows from financing activities: | | |
| Proceeds from borrowings on Revolving Credit Facility | 55,000 | — |
| Payments related to Revolving Credit Facility | (55,000) | (1,872) |
| Payments related to Convertible Notes | (45,000) | — |
| Payments on finance lease obligations | (5,511) | (14,544) |
| Proceeds from exercise of stock options | 839 | 2,559 |
| Payments related to tax withholdings for stock-based compensation | (17,004) | (20,613) |
| Payments related to share repurchases | (9,289) | (9,235) |
| Purchase of non-controlling units from third-party shareholders | (1,008) | — |
| Payments of contingent consideration | — | (750) |
| Other | 4 | 5 |
| Net cash used in financing activities | (76,969) | (44,450) |
| Effect of exchange rate on changes on cash, cash equivalents and restricted cash | 3,897 | (3,128) |
| Net change in cash, cash equivalents and restricted cash | (118,962) | (188,098) |
| Cash, cash equivalents and restricted cash, beginning of period | 162,173 | 429,428 |
| Cash, cash equivalents and restricted cash, end of period | $ 43,211 | $ 241,330 |
| **Supplemental disclosures of cash flow information** | | |
| Net cash paid for income taxes | $ 13,552 | $ 7,916 |
| Cash paid for interest | $ 12,231 | $ 7,851 |
| **Supplemental disclosure of non-cash activities** | | |
| Conversion of equity method investee loan to shares | $ 4,129 | $ 2,623 |
| Right-of-use assets obtained in exchange for lease liabilities, net | $ 359 | $ 11,805 |
| Property and equipment acquired through finance lease | $ 5,511 | $ 15,382 |
| Purchase of property and equipment included in accounts payable, accrued expenses and other liabilities | $ 930 | $ 1,370 |
| Membership interest liabilities included in other liabilities | $ — | $ 752 |

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

**Envestnet, Inc.**
**Notes to Unaudited Condensed Consolidated Financial Statements**

## 1. Organization and Description of Business

Envestnet, Inc. ("Envestnet") through its subsidiaries (collectively, the "Company") is transforming the way financial advice and insight are delivered. Its mission is to empower financial advisors and service providers with innovative technology, solutions and intelligence. Envestnet has been a leader in helping transform wealth management, working towards its goal of expanding a holistic financial wellness ecosystem so that our clients can deliver an intelligent financial life to their clients.

Envestnet is organized around two primary, complementary business segments. Financial information about each business segment is contained in "Note 18—Segment Information" to the condensed consolidated financial statements and is described in detail within the Company's Annual Report on Form 10-K.

For a summary of commonly used industry terms and abbreviations used in this quarterly report on Form 10-Q, see the Glossary of Terms.

## 2. Summary of Significant Accounting Policies

***Basis of Presentation***

The accompanying unaudited condensed consolidated financial statements of the Company as of September 30, 2023 and for the three and nine months ended September 30, 2023 and 2022 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, 2022 and reflect all normal recurring adjustments which are, in the opinion of management, necessary to present fairly the Company's financial position as of September 30, 2023 and results of operations, equity, comprehensive income (loss) and cash flows for the periods presented herein. The unaudited condensed consolidated financial statements include the accounts of the Company. All significant intercompany transactions and balances have been eliminated in consolidation. Accounts for the Envestnet Wealth Solutions segment that are denominated in a non-U.S. currency have been re-measured using the U.S. dollar as the functional currency. Certain accounts within the Envestnet Data & Analytics segment are recorded and measured in foreign currencies. The assets and liabilities for those subsidiaries with a functional currency other than the U.S. dollar are translated at exchange rates in effect at the balance sheet date, and revenue and expenses are translated at average exchange rates. Differences arising from these foreign currency translations are recorded in the unaudited condensed consolidated balance sheets as accumulated other comprehensive income (loss) within stockholders' equity. The Company is also subject to gains and losses from foreign currency denominated transactions and the remeasurement of foreign currency denominated balance sheet accounts, both of which are included in other expense, net in the condensed consolidated statements of operations.

The results of operations for the three and nine months ended September 30, 2023 are not necessarily indicative of the results of operations to be expected for other interim periods or for the full fiscal year.

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. References to GAAP in these notes are to the FASB ASC and ASUs.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, 2022, filed with the SEC on February 28, 2023.

***Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ materially from these estimates under different assumptions or conditions.

***Reclassifications***

Certain amounts in the condensed consolidated balance sheets as of December 31, 2022 and the condensed consolidated statements of cash flows for the nine months ended September 30, 2022 have been reclassified to conform to the current period presentation. These reclassifications did not change the previously reported total assets, total liabilities and equity, or net change in cash and cash equivalents and did not affect the condensed consolidated statements of operations, condensed consolidated statements of comprehensive loss or condensed consolidated statements of stockholders' equity.

***Related Party Transactions***

The Company has an approximate 3.8% membership interest in a private services company that it accounts for using the equity method of accounting and is considered to be a related party. Revenue from the private services company totaled $2.8 million and $3.7 million in the three months ended September 30, 2023 and 2022, respectively. Revenue from the private services company totaled $9.7 million and $12.7 million in the nine months ended September 30, 2023 and 2022, respectively. As of September 30, 2023 and December 31, 2022, the Company recorded a net receivable from the private services company of $1.8 million and $2.0 million, respectively.

***Recent Accounting Pronouncements Not Yet Adopted***

In March 2023, the FASB issued ASU 2023-01, “Leases (Topic 842): Common Control Arrangements.” This update amends ASC 842 and the accounting for leasehold improvements associated with common control leases. This standard is effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption of the standard is permitted. The Company is analyzing the impact of the adoption, but does not expect it to have a material impact on the consolidated financial statements.

## 3. Acquisitions

***Acquisition of Redi2 Technologies***

On July 1, 2022, the Company completed the acquisition of all of the issued and outstanding shares of Redi2 Technologies ("Redi2"). Redi2 provides revenue management and hosted fee-billing solutions. Its platform enables fee calculation, invoice creation, payouts and accounting, and billing compliance. Redi2 has been integrated into the Envestnet Wealth Solutions segment.

In connection with the Redi2 acquisition, the Company paid consideration as follows (in thousands):

| | | |
|---|---|---|
| Cash consideration, net | $ | 69,406 |
| Working capital adjustment | | (533) |
| Total | $ | 68,873 |

The Company funded the Redi2 acquisition with available cash resources. In addition, certain executives may earn up to $20.0 million in performance bonuses based upon the achievement of certain target financial and non-financial metrics. These performance bonuses will be recognized as compensation and benefits expense in the condensed consolidated statements of operations. The Company recognized $0.4 million and $1.9 million related to these performance bonuses during the three and nine months ended September 30, 2023, respectively.

The following table summarizes the final fair values of the assets acquired and liabilities assumed as of the acquisition date (in thousands):

| | |
|---|---|
| Total current assets | $ 1,985 |
| Other non-current assets | 3,321 |
| Identifiable intangible assets | 26,500 |
| Goodwill | 46,467 |
| Total assets acquired | 78,273 |
| | |
| Accounts payable, accrued expenses and other current liabilities | (2,428) |
| Operating lease liabilities | (2,201) |
| Deferred revenue | (4,771) |
| Total liabilities assumed | (9,400) |
| Total net assets acquired, net of cash received | $ 68,873 |

The goodwill arising from the acquisition represents the expected benefits of the transaction, primarily related to the enhancement of the Company's existing technologies and increase in future revenue as a result of potential cross selling opportunities. Goodwill of $40.7 million is expected to be deductible for income tax purposes.

A summary of intangible assets acquired is as follows:

| | Gross Carrying Amount | Estimated Useful Life | Amortization Method |
|---|---|---|---|
| | (in thousands) | (in years) | |
| Customer lists | $ 14,000 | 14 - 16 | Accelerated |
| Proprietary technologies | 9,500 | 6 | Straight-line |
| Trade names | 3,000 | 6 - 7 | Straight-line |
| Total intangible assets acquired | $ 26,500 | | |

The Company completed the acquisition accounting related to the Redi2 acquisition during the six months ended June 30, 2023.

The results of Redi2 were included in the condensed consolidated statements of operations beginning July 1, 2022 and are not considered material to the Company’s results of operations.

During the three and nine months ended September 30, 2023, the Company’s acquisition related costs included in general and administrative expense in the condensed consolidated statements of operations were not material.

## 4. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following:

| | September 30, 2023 | December 31, 2022 |
|---|---|---|
| | (in thousands) | |
| Prepaid technology | $ 16,500 | $ 16,649 |
| Income tax prepayments and receivables | 6,785 | 2,515 |
| Prepaid insurance | 4,487 | 2,881 |
| Non-income tax receivable | 4,231 | 5,488 |
| Other | 17,296 | 13,830 |
| Total prepaid expenses and other current assets | $ 49,299 | $ 41,363 |

## 5. Internally Developed Software, Net

Internally developed software, net consisted of the following:

| | Estimated Useful Life | September 30, 2023 | December 31, 2022 |
|---|---|---|---|
| | | (in thousands) | |
| Internally developed software | 5 years | $ 383,041 | $ 313,200 |
| Less: accumulated amortization | | (165,630) | (128,642) |
| Internally developed software, net | | $ 217,411 | $ 184,558 |

## 6. Geographical Information

The following table sets forth certain long-lived assets including property and equipment, net and internally developed software, net by geographic area:

| | September 30, 2023 | December 31, 2022 |
|---|---|---|
| | (in thousands) | |
| United States | $ 280,589 | $ 245,817 |
| India | 2,607 | 1,093 |
| Other | — | 91 |
| Total long-lived assets, net | $ 283,196 | $ 247,001 |

See "Note 14—Revenue and Direct Expense" for detail of revenue by geographic area.

## 7. Intangible Assets, Net

Intangible assets, net consisted of the following:

| | September 30, 2023 | | | December 31, 2022 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| | (in thousands) | | | | | |
| Customer lists | $ 604,080 | $ (316,805) | $ 287,275 | $ 604,080 | $ (285,288) | $ 318,792 |
| Proprietary technologies | 86,057 | (32,735) | 53,322 | 113,224 | (59,401) | 53,823 |
| Trade names | 15,700 | (10,086) | 5,614 | 15,700 | (8,320) | 7,380 |
| Total intangible assets | $ 705,837 | $ (359,626) | $ 346,211 | $ 733,004 | $ (353,009) | $ 379,995 |

On April 1, 2022, the Company entered into a purchase agreement with a privately held company to acquire technology solutions being developed by this privately held company for a purchase price of $9.0 million, including an advance of $4.0 million. The purchase agreement was amended in January 2023 to include additional functionality and features for additional consideration of $5.0 million. The Company closed the transaction and paid the remaining $10.0 million during the three months ended March 31, 2023. This proprietary technology asset has been integrated into the Envestnet Data & Analytics segment and is being amortized over an estimated useful life of five years.

On May 19, 2023, the Company entered into a purchase agreement with this same privately held company to acquire technology solutions being developed by this privately held company for a purchase price of $7.0 million, including an advance of $2.0 million. In addition, the prior purchase agreements that were entered into with this privately held company in June 2021 and April 2022 were amended in May 2023 to remove the earn-out payment provisions.

During the nine months ended September 30, 2023, the Company retired fully amortized proprietary technologies with a historical cost of $40.5 million.

Future amortization expense of the Company's intangible assets as of September 30, 2023, is expected to be as follows (in thousands):

| | |
|---|---|
| Remainder of 2023 | $ 15,012 |
| 2024 | 55,968 |
| 2025 | 52,573 |
| 2026 | 45,048 |
| 2027 | 36,283 |
| Thereafter | 141,327 |
| Total | $ 346,211 |

## 8. Depreciation and Amortization Expense

Depreciation and amortization expense consisted of the following:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| | (in thousands) | | | |
| Intangible asset amortization | $ 15,124 | $ 18,649 | $ 47,784 | $ 53,814 |
| Internally developed software amortization | 13,500 | 9,441 | 36,988 | 27,022 |
| Property and equipment depreciation | 5,687 | 5,318 | 16,286 | 16,372 |
| Total depreciation and amortization | $ 34,311 | $ 33,408 | $ 101,058 | $ 97,208 |

## 9. Goodwill

Changes in the carrying amount of goodwill by reportable segment were as follows:

| | Envestnet Wealth Solutions | Envestnet Data & Analytics | Total |
|---|---|---|---|
| | | (in thousands) | |
| Balance as of December 31, 2022 | $ 679,739 | $ 318,675 | $ 998,414 |
| Foreign currency translation | — | (33) | (33) |
| Balance as of September 30, 2023 | $ 679,739 | $ 318,642 | $ 998,381 |

As part of the annual goodwill impairment analysis, the Company will perform a quantitative goodwill impairment evaluation for each reporting unit as of October 31, 2023. As a result of the segment change described in Note 18—Segment Information and a corresponding adjustment to the composition of reporting units, as well as lower revenue and profits in 2023 compared to prior years in the Envestnet Data & Analytics segment, the Envestnet Data & Analytics reporting unit's goodwill balance may be considered at risk for future impairment. Based on the results of this assessment, if the carrying value of the reporting unit exceeds its fair value, it could result in the recognition of an impairment of goodwill in the fourth quarter of 2023, and such impairment could be material.

## 10. Other Assets

On January 31, 2023, the Company entered into a Convertible Promissory Note with a customer of the Company's business, a privately held company, whereby the Company was issued a convertible promissory note with a principal amount of $20.0 million and a stated interest rate of 8.0% per annum. The Convertible Promissory Note has a maturity date of January 31, 2026 and is convertible into common stock or preferred stock of the privately held company upon qualified financing events or corporate transactions. During the three and nine months ended September 30, 2023, interest income related to the Convertible Promissory Note included in other expense, net in the condensed consolidated statements of operations was $0.4 million and $1.1 million, respectively.

In connection with the Convertible Promissory Note, the Company concurrently entered into a call option agreement with the privately held company, which provides the Company an option to acquire the privately held company at a predetermined price as of the earlier of July 2024 or upon satisfaction of certain financial metrics. The financial metrics were met during the three months ended September 30, 2023, however, the Company did not exercise the call option.

The Company accounts for this Convertible Promissory Note as a loan receivable in accordance with ASC 310 - Receivables as it is not a security and includes it in other assets in the condensed consolidated balance sheets. Credit impairment is measured as the difference between this loan receivable's amortized cost and its estimated recoverable value, which is the present value of its expected future cash flows discounted at the effective interest rate. There was no impairment for this investment during the nine months ended September 30, 2023.

## 11. Accounts Payable, Accrued Expenses and Other Current Liabilities

Accounts payable, accrued expenses and other current liabilities consisted of the following:

| | September 30, 2023 | December 31, 2022 |
|---|---|---|
| | (in thousands) | |
| Accrued investment manager fees | $ 110,496 | $ 99,851 |
| Accrued compensation and related taxes | 69,943 | 77,939 |
| Accounts payable | 16,594 | 11,271 |
| Accrued professional services | 9,779 | 10,762 |
| Accrued interest | 5,654 | 3,091 |
| Accrued technology | 5,285 | 6,393 |
| Accrued treasury stock purchases | — | 9,289 |
| Other accrued expenses | 6,634 | 15,270 |
| Total accounts payable, accrued expenses and other current liabilities | $ 224,385 | $ 233,866 |

During the nine months ended September 30, 2023, as part of a reduction in force initiative, the Company entered into separation agreements with a number of employees. In connection with this reduction in force initiative that began in the first quarter of 2023, as well as a fourth quarter 2022 organizational realignment, the Company incurred $11.5 million and $25.9 million in total severance expense in the three and nine months ended September 30, 2023, respectively.

As of September 30, 2023 the Company had an ending liability balance of $13.4 million related to these efforts, of which the Company anticipates approximately $10.1 million to be paid during the remainder of 2023, $2.7 million to be paid throughout 2024, with the remaining balance paid through 2030.

The following table presents a reconciliation of the beginning and ending liability balance related to these efforts, which is primarily included within "Accrued compensation and related taxes" in the table above.

| | Envestnet Wealth Solutions | Envestnet Data & Analytics | Nonsegment | Total |
|---|---|---|---|---|
| | (in thousands) | | | |
| Balance as of December 31, 2022 | $ 11,929 | $ 3,439 | $ — | $ 15,368 |
| Severance expense | 9,931 | 11,849 | 4,124 | 25,904 |
| Cash payments | (14,170) | (9,535) | (4,124) | (27,829) |
| Balance as of September 30, 2023 | $ 7,690 | $ 5,753 | $ — | $ 13,443 |

Subsequent to September 30, 2023, in connection with the reduction in force initiative, the Company entered into separation agreements with a number of employees and incurred an additional $5.6 million in severance expense, of which the Company anticipates approximately $1.8 million to be paid during the remainder of 2023 and $3.8 million to be paid during the first quarter of 2024.

## 12. Debt

The following tables set forth the carrying value and estimated fair value of the Company's debt obligations as of September 30, 2023 and December 31, 2022:

| | September 30, 2023 | | | |
|---|---|---|---|---|
| | Issuance Amount | Unamortized Issuance Costs | Carrying Value | Fair Value (Level II) |
| | (in thousands) | | | |
| Revolving Credit Facility | $ — | $ — | $ — | $ — |
| Convertible Notes due 2025 | 317,500 | (3,419) | 314,081 | 293,875 |
| Convertible Notes due 2027 | 575,000 | (13,691) | 561,309 | 523,595 |
| Total debt | $ 892,500 | $ (17,110) | $ 875,390 | $ 817,470 |

| | December 31, 2022 | | | |
|---|---|---|---|---|
| | Issuance Amount | Unamortized Issuance Costs | Carrying Value | Fair Value (Level II) |
| | (in thousands) | | | |
| Revolving Credit Facility | $ — | $ — | $ — | $ — |
| Convertible Notes due 2023 | 45,000 | (114) | 44,886 | 46,058 |
| Convertible Notes due 2025 | 317,500 | (4,765) | 312,735 | 293,688 |
| Convertible Notes due 2027 | 575,000 | (15,966) | 559,034 | 606,119 |
| Total debt | $ 937,500 | $ (20,845) | $ 916,655 | $ 945,865 |

***Revolving Credit Facility***

The Revolving Credit Facility contains customary conditions, representations and warranties, affirmative and negative covenants, mandatory prepayment provisions and events of default. The covenants include certain financial covenants requiring the Company to maintain compliance with a maximum total leverage ratio and a minimum interest coverage ratio. The Company was in compliance with these financial covenants as of September 30, 2023.

As of September 30, 2023 and December 31, 2022 there wereno amounts outstanding under the Revolving Credit Facility, and all $500.0 million was available to borrow as of September 30, 2023.

As of September 30, 2023 and December 31, 2022, debt issuance costs related to the Revolving Credit Facility included in prepaid expense and other current assets in the condensed consolidated balance sheets was $0.7 million and $0.7 million, respectively, and included in other assets in the condensed consolidated balance sheets was $1.6 million and $2.2 million, respectively.

***Convertible Notes due 2023***

The Convertible Notes due 2023 matured on June 1, 2023. Upon maturity, the Company settled the remaining aggregate principal amount on the Convertible Notes due 2023 for $45.0 million. The Convertible Notes due 2023 were paid using a combination of cash on hand and borrowings under the Company's Revolving Credit Facility. No shares of the Company's common stock were issued upon settlement of the Convertible Notes due 2023.

***Interest Expense***

Interest expense was comprised of the following and is included in other expense, net in the condensed consolidated statements of operations:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| | (in thousands) | | | |
| Convertible Notes interest | $ 4,368 | $ 2,479 | $ 13,476 | $ 7,439 |
| Amortization of debt discount and issuance costs | 1,389 | 1,443 | 4,258 | 4,917 |
| Undrawn and other fees | 312 | 320 | 936 | 951 |
| Revolving Credit Facility interest | 133 | — | 383 | — |
| Total interest expense | $ 6,202 | $ 4,242 | $ 19,053 | $ 13,307 |

The effective interest rate of the Convertible Notes was equal to the stated interest rate plus the amortization of the debt issuance costs and is set forth below:

| | September 30, 2023 | September 30, 2022 |
|---|---|---|
| Convertible Notes due 2023 | N/A | 2.4 % |
| Convertible Notes due 2025 | 1.3 % | 1.3 % |
| Convertible Notes due 2027 | 3.2 % | N/A |

## 13. Fair Value Measurements

The following tables set forth the fair value of the Company’s financial assets and liabilities measured at fair value on a recurring basis in the condensed consolidated balance sheets as of September 30, 2023 and December 31, 2022, based on the three-tier fair value hierarchy, as described in detail within the Company's Annual Report on Form 10-K:

| | September 30, 2023 | | | |
|---|---|---|---|---|
| | Fair Value | Level I | Level II | Level III |
| | (in thousands) | | | |
| Assets: | | | | |
| Money market funds | $ 22,701 | $ 22,701 | $ — | $ — |
| Assets to fund deferred compensation liability | 10,366 | — | — | 10,366 |
| Total assets | $ 33,067 | $ 22,701 | $ — | $ 10,366 |
| Liabilities: | | | | |
| Deferred compensation liability | 7,849 | 7,849 | — | — |
| Total liabilities | $ 7,849 | $ 7,849 | $ — | $ — |

| | December 31, 2022 | | | |
|---|---|---|---|---|
| | Fair Value | Level I | Level II | Level III |
| | (in thousands) | | | |
| Assets: | | | | |
| Money market funds | $ 2,628 | $ 2,628 | $ — | $ — |
| Assets to fund deferred compensation liability | 10,074 | — | — | 10,074 |
| Total assets | $ 12,702 | $ 2,628 | $ — | $ 10,074 |
| Liabilities: | | | | |
| Deferred compensation liability | 8,088 | 8,088 | — | — |
| Total liabilities | $ 8,088 | $ 8,088 | $ — | $ — |

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 when changes in circumstances caused the transfer, in accordance with the Company's accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. There were no transfers between Levels I, II and III during the nine months ended September 30, 2023 and 2022.

***Fair Value of Assets Used to Fund the Deferred Compensation Liability***

The table below presents a reconciliation of the assets used to fund the Company's deferred compensation liability, which is measured at fair value on a recurring basis using significant unobservable inputs (Level III) for the period from December 31, 2022 to September 30, 2023:

| | Fair Value of Assets Used to Fund Deferred Compensation Liability |
|---|---|
| | (in thousands) |
| Balance as of December 31, 2022 | $ 10,074 |
| Fair value adjustments and fees | 292 |
| Balance as of September 30, 2023 | $ 10,366 |

The fair market value of the assets used to fund theCompany's deferred compensation liability is based upon the cash surrender value of theCompany's life insurance premiums. The value of the assets used to fund the Company's deferred compensation liability, which are included in other assets in the condensed consolidated balance sheets, increased due to net gains on the underlying investment vehicles. These gains are recognized in the Company's earnings and included in general and administrative expenses in the condensed consolidated statements of operations.

***Fair Value of Debt Agreements***

The Company considered its Convertible Notes to be Level II liabilities as of September 30, 2023 and December 31, 2022, and used a market approach to calculate their respective fair values. The estimated fair value for each convertible note was determined based on estimated or actual bids and offers in an over-the-counter market on September 30, 2023 and December 31, 2022, respectively (See "Note 12—Debt").

***Fair Value of Other Financial Assets and Liabilities***

The Company considered the recorded value of its other financial assets and liabilities, which consist primarily of cash and cash equivalents, accounts receivable and accounts payable, to approximate the fair value of the respective assets and liabilities as of September 30, 2023 and December 31, 2022, based upon the short-term nature of these assets and liabilities.

## 14. Revenue and Direct Expense

***Disaggregation of Revenue***

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

| | Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | | 2022 | | |
| | Envestnet Wealth Solutions | Envestnet Data & Analytics | Total | Envestnet Wealth Solutions | Envestnet Data & Analytics | Total |
| | (in thousands) | | | | | |
| Revenue: | | | | | | |
| Asset-based | $ 193,901 | $ — | $ 193,901 | $ 177,131 | $ — | $ 177,131 |
| Subscription-based | 76,813 | 38,126 | 114,939 | 75,975 | 47,772 | 123,747 |
| Total recurring revenue | 270,714 | 38,126 | 308,840 | 253,106 | 47,772 | 300,878 |
| Professional services and other revenue | 4,313 | 3,694 | 8,007 | 4,229 | 1,588 | 5,817 |
| Total revenue | $ 275,027 | $ 41,820 | $ 316,847 | $ 257,335 | $ 49,360 | $ 306,695 |

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | | 2022 | | |
| | Envestnet Wealth Solutions | Envestnet Data & Analytics | Total | Envestnet Wealth Solutions | Envestnet Data & Analytics | Total |
| | (in thousands) | | | | | |
| Revenue: | | | | | | |
| Asset-based | $ 556,595 | $ — | $ 556,595 | $ 571,820 | $ — | $ 571,820 |
| Subscription-based | 228,807 | 118,170 | 346,977 | 218,080 | 138,521 | 356,601 |
| Total recurring revenue | 785,402 | 118,170 | 903,572 | 789,900 | 138,521 | 928,421 |
| Professional services and other revenue | 17,866 | 6,550 | 24,416 | 13,003 | 5,486 | 18,489 |
| Total revenue | $ 803,268 | $ 124,720 | $ 927,988 | $ 802,903 | $ 144,007 | $ 946,910 |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| | (in thousands) | | | |
| United States | $ 311,045 | $ 300,465 | $ 911,205 | $ 931,465 |
| International | 5,802 | 6,230 | 16,783 | 15,445 |
| Total revenue | $ 316,847 | $ 306,695 | $ 927,988 | $ 946,910 |

***Remaining Performance Obligations***

As of September 30, 2023, the Company's estimated revenue expected to be recognized in the future related to performance obligations associated with existing customer contracts that are partially or wholly unsatisfied is approximately $567.0 million. We expect to recognize approximately 12% of this revenue during the remainder of 2023, approximately 61% throughout 2024 and 2025, with the balance recognized thereafter. These remaining performance obligations are not indicative of revenue for future periods.

**Envestnet, Inc.**
**Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

***Contract Balances***

Total deferred revenue as of September 30, 2023 decreased by $4.0 million from December 31, 2022, primarily the result of timing of cash receipts and revenue recognition. The majority of the Company's deferred revenue will be recognized over the course of the next twelve months.

The amount of revenue recognized for the three months ended September 30, 2023 and 2022 that was included in the opening deferred revenue balance was $.4 million and $5.5 million, respectively. The amount of revenue recognized for the nine months ended September 30, 2023 and 2022, that was included in the opening deferred revenue balance was $33.6 million and $31.7 million, respectively. The majority of this revenue consists of subscription-based services and professional services arrangements. The amount of revenue recognized from performance obligations satisfied in prior periods was not material.

***Deferred Sales Incentive Compensation***

Deferred sales incentive compensation was $11.7 million and $11.0 million as of September 30, 2023 and December 31, 2022, respectively. Amortization expense for the deferred sales incentive compensation was $1.1 million and $1.0 million for the three months ended September 30, 2023 and 2022, respectively. Amortization expense for the deferred sales incentive compensation was $3.4 million and $3.2 million for the nine months ended September 30, 2023 and 2022, respectively. Deferred sales incentive compensation is included in other assets in the condensed consolidated balance sheets and amortization expense is included in employee compensation expense in the condensed consolidated statements of operations. No significant impairment loss for capitalized costs was recorded during the nine months ended September 30, 2023 and 2022.

***Direct Expense***

The following table summarizes direct expense by revenue category:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| | (in thousands) | | | |
| Asset-based | $ 112,938 | $ 102,409 | $ 324,093 | $ 332,138 |
| Subscription-based | 6,974 | 7,768 | 20,269 | 22,820 |
| Professional services and other | (374) | (69) | 7,662 | 6,914 |
| Total direct expense | $ 119,538 | $ 110,108 | $ 352,024 | $ 361,872 |

## 15. Stock-Based Compensation

The Company has stock options, RSUs and PSUs outstanding under the 2010 Plan and the 2019 Equity Plan. As of September 30, 2023, the maximum number of common shares available for future issuance under the Company's plans is 1,701,899.

Stock-based compensation expense under the Company’s plans was as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| | (in thousands) | | | |
| Stock-based compensation expense | $ 17,298 | $ 17,265 | $ 58,141 | $ 61,831 |
| Tax effect on stock-based compensation expense | (4,411) | (4,403) | (14,826) | (15,767) |
| Net effect on income (loss) | $ 12,887 | $ 12,862 | $ 43,315 | $ 46,064 |

The tax effect on stock-based compensation expense above was calculated using a blended statutory rate of25.5% for each of the three and nine months ended September 30, 2023 and 2022.

***Stock Options***

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

| | Options | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life (in years) | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|---|
| Outstanding as of December 31, 2022 | 277,535 | $ 40.07 | 2.2 | $ 6,005 |
| Exercised | (52,376) | $ 19.97 | | |
| Forfeited | (2,938) | $ 55.00 | | |
| Outstanding as of September 30, 2023 | 222,221 | $ 44.61 | 1.7 | $ 1,067 |
| Options exercisable as of September 30, 2023 | 222,221 | $ 44.61 | 1.7 | $ 1,067 |

As of September 30, 2023, there was an immaterial amount of unrecognized stock-based compensation expense related to stock options.

***Restricted Stock Units and Performance Stock Units***

The following table summarizes RSU and PSU activity under the Company's plans:

| | RSUs | | PSUs | |
|---|---|---|---|---|
| | Number of Shares | Weighted-Average Grant Date Fair Value per Share | Number of Shares | Weighted-Average Grant Date Fair Value per Share |
| Non-vested as of December 31, 2022 | 1,681,976 | $ 72.69 | 259,049 | $ 74.83 |
| Granted | 1,101,448 | $ 61.13 | 40,010 | $ 69.47 |
| Vested | (849,920) | $ 72.99 | (21,994) | $ 104.96 |
| Forfeited | (210,336) | $ 62.64 | (51,062) | $ 65.13 |
| Non-vested as of September 30, 2023 | 1,723,168 | $ 66.38 | 226,003 | $ 73.14 |

As of September 30, 2023, there was $89.8 million of unrecognized stock-based compensation expense related to RSUs, which the Company expects to recognize over a weighted-average period of 1.8 years. As of September 30, 2023, there was $3.8 million of unrecognized stock-based compensation expense related to PSUs, which the Company expects to recognize over a weighted-average period of 1.0 year.

## 16. Income Taxes

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| | (in thousands, except for effective tax rate) | | | |
| Loss before income tax provision (benefit) | $ (3,768) | $ (6,392) | $ (45,474) | $ (49,181) |
| Income tax provision (benefit) | $ (8,824) | $ 2,271 | $ 15,363 | $ (1,542) |
| Effective tax rate | 234.2 % | (35.5)% | (33.8)% | 3.1 % |

Under ASC 740-270-25, the Company is required to report income tax expense by applying a projected AETR to ordinary pre-tax book income for the interim period. The tax impact of discrete items is accounted for separately in the period in which they occur. The ETR for the quarter is the result of the projected AETR applied to actual pre-tax book income plus discrete items as a percentage of pre-tax book income. Therefore, a change in pre-tax book income, either forecasted or actual year-to-date, from one period to the next will cause the ETR to change.

For the three months ended September 30, 2023, the Company's effective tax rate was impacted by the change in forecasted and actual year-to-date pre-tax book income. For the three and nine months ended September 30, 2023, the Company’s effective tax rate differed from the statutory rate primarily due to the increase in the valuation allowance the Company has placed on a portion of its U.S. deferred tax assets which includes the impact of IRC Section 174, permanent book-tax differences, uncertain tax positions and the impact of state and local taxes offset by federal and state R&D credits.

For the three and nine months ended September 30, 2022, the Company's effective tax rate differed from the statutory rate primarily due to the increase in the valuation allowance the Company has placed on a portion of its U.S. deferred tax assets which includes the impact of the Redi2 and Truelytics acquisitions and IRC Section 174, permanent book-tax differences, the impact of state and local taxes offset by federal and state R&D credits and the partial reserve release of an uncertain tax position due to the expiration of a statute of limitations.

***Inflation Reduction Act of 2022***

On August 16, 2022, the U.S. enacted the Inflation Reduction Act of 2022, which, among other things, implements a 15% minimum tax on book income of certain large corporations and a 1% excise tax on net stock repurchases. The provisions of the Inflation Reduction Act of 2022 became effective beginning in 2023. The Company does not anticipate a material impact on the consolidated financial statements.

## 17. Net Income (Loss) Per Share

The following table provides the numerators and denominators used in computing basic and diluted net income (loss) attributable to Envestnet, Inc., per share:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| | (in thousands, except per share and per share data) | | | |
| Net income (loss) attributable to Envestnet, Inc. | $ 7,091 | $ (7,290) | $ (55,553) | $ (44,434) |
| Weighted average common shares outstanding: | | | | |
| Basic | 54,562,270 | 55,226,777 | 54,380,231 | 55,109,387 |
| Effect of dilutive shares: | | | | |
| Non-vested RSUs and PSUs | 361,982 | — | — | — |
| Options to purchase common stock | 46,364 | — | — | — |
| Diluted | 54,970,616 | 55,226,777 | 54,380,231 | 55,109,387 |
| Net income (loss) attributable to Envestnet, Inc., per share: | | | | |
| Basic | $ 0.13 | $ (0.13) | $ (1.02) | $ (0.81) |
| Diluted | $ 0.13 | $ (0.13) | $ (1.02) | $ (0.81) |

Securities that were anti-dilutive and therefore excluded from the computation of diluted net income (loss)per share were as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| Convertible Notes | 10,811,884 | 9,898,549 | 11,176,254 | 9,898,549 |
| Non-vested RSUs and PSUs | — | 2,136,483 | 1,949,171 | 2,136,483 |
| Options to purchase common stock | — | 281,535 | 222,221 | 281,535 |
| Warrants | — | 470,000 | — | 470,000 |
| Total anti-dilutive securities | 10,811,884 | 12,786,567 | 13,347,646 | 12,786,567 |

## 18. Segment Information

Business segments are generally organized around the Company's business services. The Company's business segments are:

- ***Envestnet Wealth Solutions*** – a leading provider of unified wealth management software and services to empower financial advisors and institutions to enable them to deliver an intelligent financial life to their clients.

- ***Envestnet Data & Analytics*** – a leading data aggregation, intelligence, and experiences platform that powers data connectivity and business intelligence across digital financial services to enable them to deliver an intelligent financial life to their clients.

Subsequent to September 30, 2023, the Company changed the composition of its reportable segments to reflect the way that the Company's chief operating decision maker reviews the operating results, assesses performance and allocates resources. As a result, the advisor-focused Wealth Analytics business has been reclassified from the Envestnet Data & Analytics segment to the Envestnet Wealth Solutions segment. The segment changes do not impact nonsegment results or the Company's consolidated balance sheets, consolidated statements of operations or consolidated statements of cash flows.

All segment information presented within this quarterly report on Form 10-Q for the quarter ended September 30, 2023 is presented in conjunction with the historical organizational structure as that is the organizational structure in place as of the balance sheet date of September 30, 2023.

The information in the following tables is derived from the Company’s internal financial reporting used for corporate management purposes. Nonsegment operating expenses may include salary and benefits for certain corporate officers, certain types of professional service expenses and insurance, acquisition related transaction costs, certain restructuring charges and other non-recurring and/or non-operationally related expenses. Intersegment revenue was not material for the three and nine months ended September 30, 2023 and 2022.

See “Note 14—Revenue and Direct Expense” for detail of revenue by segment.

The following table presents a reconciliation from income (loss) from operations by segment to consolidated net income (loss) attributable to Envestnet, Inc.:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| | (in thousands) | | | |
| Envestnet Wealth Solutions | $ 31,392 | $ 20,607 | $ 78,254 | $ 49,844 |
| Envestnet Data & Analytics | (9,115) | 74 | (27,888) | (9,218) |
| Nonsegment operating expenses | (21,676) | (21,727) | (76,134) | (80,116) |
| Income (loss) from operations | 601 | (1,046) | (25,768) | (39,490) |
| Other expense, net | (4,369) | (5,346) | (19,706) | (9,691) |
| Consolidated loss before income tax provision (benefit) | (3,768) | (6,392) | (45,474) | (49,181) |
| Income tax provision (benefit) | (8,824) | 2,271 | 15,363 | (1,542) |
| Consolidated net income (loss) | 5,056 | (8,663) | (60,837) | (47,639) |
| Add: Net loss attributable to non-controlling interest | 2,035 | 1,373 | 5,284 | 3,205 |
| Consolidated net income (loss) attributable to Envestnet, Inc. | $ 7,091 | $ (7,290) | $ (55,553) | $ (44,434) |

The following table presents a summary of consolidated total assets by segment:

| | September 30, 2023 | December 31, 2022 |
|---|---|---|
| | (in thousands) | |
| Envestnet Wealth Solutions | $ 1,456,849 | $ 1,503,646 |
| Envestnet Data & Analytics | 574,040 | 608,519 |
| Consolidated total assets | $ 2,030,889 | $ 2,112,165 |

## 19. Commitments and Contingencies

***Purchase Obligations and Indemnifications***

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

The Company enters into unconditional purchase obligations arrangements for certain of its services that it receives in the normal course of business.

***Legal Proceedings***

The Company and its subsidiary, Yodlee, have been named as defendants in a lawsuit filed on July 17, 2019, by FinancialApps in the United States District Court for the District of Delaware. The case caption is FinancialApps, LLC v. Envestnet Inc., et al., No. 19-cv-1337 (D. Del.). FinancialApps alleges that, after entering into a 2017 services agreement with Yodlee, Envestnet and Yodlee breached the agreement and misappropriated proprietary information to develop competing credit risk assessment software. The complaint includes claims for, among other things, misappropriation of trade secrets, fraud, tortious interference with prospective business opportunities, unfair competition, copyright infringement and breach of contract. FinancialApps is seeking significant monetary damages and various equitable and injunctive relief.

**Envestnet, Inc.**
**Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

On September 17, 2019, the Company and Yodlee filed a motion to dismiss certain of the claims in the complaint filed by FinancialApps, including the copyright infringement, unfair competition and fraud claims. On August 25, 2020, the District Court granted in part and denied in part the Company and Yodlee's motion. Specifically, the Company and Yodlee prevailed on FinancialApps' counts alleging copyright infringement and violations of the Illinois Deceptive Trade Practices Act. And while the Court was receptive to Envestnet and Yodlee's argument that several of FinancialApps' other counts are based on allegations that amount to copyright infringement—and therefore should fail due to copyright preemption—the Court found that FinancialApps had alleged enough conduct distinct from copyright infringement to survive dismissal at this early stage.

On October 30, 2019, the Company and Yodlee filed counterclaims against FinancialApps. Yodlee alleges that FinancialApps fraudulently induced it to enter into contracts with FinancialApps, then breached those contracts. FinancialApps has filed a motion to dismiss Yodlee's counterclaims. On September 15, 2020, the District Court denied FinancialApps' motion on all counts except for the breach-of-contract claim which was dismissed on a pleading technicality without prejudice. On that count, the Court granted Yodlee leave to amend its counterclaim, cure the technical deficiency, and reassert its claim. Yodlee and Envestnet filed amended counterclaims on September 30, 2020. The amended counterclaims (1) cure that technical deficiency and reassert Yodlee's contract counterclaim; and (2) broaden the defamation counterclaims arising out of various defamatory statements FinancialApps disseminated in the trade press after filing the lawsuit. On January 14, 2021, the Court ordered that (i) FinancialApps' claims against Yodlee—as well as Yodlee's counterclaims against FinancialApps—must be tried before the judge instead of a jury pursuant to a jury waiver provision in the parties' agreement; and (ii) FinancialApps' claims against Envestnet (and Envestnet's counterclaim) must be heard by a jury. The Court has scheduled the Envestnet jury trial to take place before the Yodlee bench trial. Fact discovery closed on April 23, 2021, other than a few outstanding matters, and expert discovery concluded on September 30, 2022. The parties' respective summary judgment and motions to exclude the presentation of expert testimony (a "Daubert Motion") are fully briefed and are awaiting final ruling. On July 25, 2023, the Magistrate Judge issued a report and recommendation that the Court grant FinancialApps' summary judgment motion on Envestnet's defamation counterclaim. The Magistrate Judge did not make a ruling as to Yodlee's defamation counterclaim. On July 28, 2023, the Magistrate Judge denied Envestnet and Yodlee's Daubert motion to exclude FinancialApps' technical expert, Isaac Pflaum. On July 31, 2023, the Magistrate Judge issued a report and recommendation that the Court grant in part and deny in part Envestnet's summary judgment motion. The Magistrate Judge recommended that the motion be denied as to FinancialApps' vicarious liability theory and direct liability theory but recommended that the motion be granted with respect to the unjust enrichment count. The reports and recommendations are not final rulings, however, and the Company has filed objections against their adoption by the District Court. Those objections are fully briefed and pending before the District Court. On August 14, 2023, the Magistrate Judge granted-in-part and denied-in-part FinancialApps' Daubert motion to exclude Envestnet and Yodlee's technical expert. On September 13, 2023, the Magistrate Judge granted-in-part and denied-in-part Envestnet and Yodlee's Daubert motion to exclude FinancialApps' damages expert. The Company believes FinancialApps' allegations are without merit and will continue to defend the claims against it and litigate the counterclaims vigorously.

The Company and Yodlee were also named as defendants in a putative class action lawsuit filed on August 25, 2020, by Plaintiff Deborah Wesch in the United States District Court for the Northern District of California. On October 21, 2020, an amended class action complaint was filed by Plaintiff Wesch and nine additional named plaintiffs. The case caption is Deborah Wesch, et al., v. Yodlee, Inc., et al., Case No. 3:20-cv-05991-SK. Plaintiffs allege that Yodlee unlawfully collected their financial transaction data when plaintiffs linked their bank accounts to a mobile application that uses Yodlee's API, and plaintiffs further allege that Yodlee unlawfully sold the transaction data to third parties. The complaint alleges violations of certain California statutes and common law, including the Unfair Competition Law, and federal statutes, including the Stored Communications Act. Plaintiffs are seeking monetary damages and equitable and injunctive relief on behalf of themselves and a putative nationwide class and California subclass of persons who provided their log-in credentials to a Yodlee-powered app in an allegedly similar manner from 2014 to the present. The Company believes that it is not properly named as a defendant in the lawsuit and it further believes, along with Yodlee, that plaintiffs' claims are without merit. On November 4, 2020, the Company and Yodlee filed separate motions to dismiss all of the claims in the complaint. On February 16, 2021, the district court granted in part and denied in part Yodlee's motion to dismiss the amended complaint and granted the plaintiffs leave to further amend. The Court reserved ruling on the Company's motion to dismiss and granted limited jurisdictional discovery to the plaintiffs. On March 15, 2021, Plaintiffs filed a second amended class action complaint re-alleging, among others, the claims the district court had dismissed. The second amended complaint did not allege any claims against the Company or Yodlee that were not previously alleged in first amended complaint. On May 5, 2021, the Company filed a motion to dismiss all claims asserted against it in the second amended complaint, and Yodlee filed a motion to dismiss most claims asserted against it in the second amended complaint. On July 19, 2021, the Court granted in part Yodlee's motion, resulting in the dismissal of all federal law claims and two of the state-law claims. On August 5, 2021, the Court granted the Company's motion to dismiss, and dismissed the Company from the lawsuit. On October 8, 2021, Yodlee filed an early motion for summary judgment. On August 12, 2022, Plaintiffs moved for leave to file a third amended complaint, which Yodlee opposed. On September 29, 2022, the Court denied Plaintiffs' motion to amend the complaint. On December 13, 2022, the Court granted in part and denied in part Yodlee's early motion for summary judgment, narrowing the scope of issues that remain to be resolved. On January 30, 2023, the Court granted Yodlee's motion for reconsideration and dismissed one additional claim. On July 20, 2023, the Court granted Yodlee's motion for judgment on the pleadings and dismissed equitable monetary claims, allowing Plaintiffs leave to seek to amend by August 7, 2023. Plaintiffs filed an amended complaint on September 19, 2023, which Yodlee answered on October 3, 2023. Yodlee will continue to vigorously defend the remaining claims against it.

In addition, the Company is involved in legal proceedings arising in the ordinary course of its business. Legal fees and other costs associated with such actions are expensed as incurred. The Company will record a provision for these claims when it is both probable that a liability has been incurred and the amount of the loss, or a range of the potential loss, can be reasonably estimated. These provisions are reviewed regularly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information or events pertaining to a particular case. For litigation matters where a loss may be reasonably possible, but not probable, or is probable but not reasonably estimable, no accrual is established, but if the matter is material, it is subject to disclosures. The Company believes that liabilities associated with any claims, while possible, are not probable, and therefore has not recorded any accrual for any claims as of September 30, 2023. Further, while any possible range of loss cannot be reasonably estimated at this time, the Company does not believe that the outcome of any of these proceedings, individually or in the aggregate, would, if determined adversely to it, have a material adverse effect on its financial condition or business, although an adverse resolution of legal proceedings could have a material adverse effect on the Company's results of operations or cash flow in a particular quarter or year.

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

***Forward-Looking Statements***

*The following discussion and analysis should be read in conjunction with our condensed consolidated financial statements and the related notes included elsewhere in this quarterly report on Form 10-Q for the quarter ended* September 30, 2023 *and the consolidated financial statements and related notes included on Form 10-K for the year ended December 31, 2022.*

*This Quarterly Report 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. 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, Item 1A."Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2022; 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 and the 2022 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, 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.*

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

### Overview

Envestnet, through its subsidiaries, is transforming the way financial advice and insight are delivered. Our mission is to empower financial advisors and service providers with innovative technology, solutions and intelligence. Envestnet has been a leader in helping transform wealth management, working towards our goal of expanding a holistic financial wellness ecosystem so that our clients can deliver an intelligent financial life to their clients.

Approximately 107,000 advisors and approximately 6,900 companies, including 16of the 20 largest U.S. banks, 48 of the 50 largest wealth management and brokerage firms, over 500 of the largest RIAs, and hundreds of FinTech companies, leverage Envestnet technology and services that help drive better outcomes for enterprises, advisors and their clients. We also operate six RIAs registered with the SEC. We believe that our business model results in a high degree of recurring and predictable financial results.

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

Envestnet, a Delaware corporation originally founded in 1999, serves clients from its headquarters based in Berwyn, Pennsylvania as well as other locations throughout the United States, India and other international locations.

**Recent Developments**

***Macroeconomic Environment***

Our business is directly and indirectly affected by macroeconomic conditions and the state of global financial markets. Recent geopolitical uncertainty, resulting, in part, from the conflict in the Middle East which intensified on October 7, 2023, military conflict between Russia and Ukraine which escalated in February 2022, as well as rising inflation, contributed to significant volatility and decline in global financial markets during 2022 which continue as of the date of this Quarterly Report. The uncertainty over the extent and duration of the ongoing conflict and this period of inflation continues to cause disruptions to businesses and markets worldwide. The extent of the effect on our financial performance will continue to depend on future developments, including the extent and duration of the conflict and this period of inflation, the Federal Reserve's monetary policy in response to rising inflation, the extent of economic sanctions imposed, changes in market interest rates, further governmental and private sector responses and the timing and extent normal economic conditions resume, all of which are uncertain and difficult to predict. Although we are unable to estimate the overall financial effect of these conflicts and this period of inflation at this time, as these conditions continue, they could have a material adverse effect on our business, results of operations, financial condition and cash flows. As of September 30, 2023, the consolidated financial statements do not reflect any adjustments as a result of these macroeconomic conditions.

***Convertible Promissory Note***

On January 31, 2023, we entered into a Convertible Promissory Note with a customer of the Company's business, a privately held company, whereby we were issued a convertible promissory note with a principal amount of $20.0 million and a stated interest rate of 8.0% per annum. The Convertible Promissory Note has a maturity date of January 31, 2026 and is convertible into common stock or preferred stock of the privately held company upon qualified financing events or corporate transactions. During the three and nine months ended September 30, 2023, interest income related to the Convertible Promissory Note included in other expense, net in the condensed consolidated statements of operations was $0.4 million and $1.1 million, respectively.

In connection with the Convertible Promissory Note, we concurrently entered into a call option agreement with the privately held company, which provides us an option to acquire the privately held company at a predetermined price as of the earlier of July 2024 or upon satisfaction of certain financial metrics. The financial metrics were met during the three months ended September 30, 2023, however, we did not exercise the call option.

***Convertible Notes due 2023***

The Convertible Notes due 2023 matured on June 1, 2023. Upon maturity, we settled the remaining aggregate principal amount on the Convertible Notes due 2023 for $45.0 million. The Convertible Notes due 2023 were paid using a combination of cash on hand and borrowings on the Company's Revolving Credit Facility. No shares of the Company's common stock were issued upon settlement of the Convertible Notes due 2023.

***Reduction in Force Initiative***

During the nine months ended September 30, 2023, as part of a reduction in force initiative, we entered into separation agreements with a number of employees. In connection with this reduction in force initiative that began in the first quarter of 2023, as well as a fourth quarter 2022 organizational realignment, we incurred approximately $11.5 million and $25.9 million of total severance expense in the three and nine months ended September 30, 2023, respectively.

As of September 30, 2023 we had an ending liability balance of $13.4 million related to these efforts, of which we anticipate approximately $10.1 million to be paid during the remainder of 2023, $2.7 million to be paid throughout 2024, with the remaining balance paid through 2030.

Subsequent to September 30, 2023, in connection with the reduction in force initiative, we entered into separation agreements with a number of employees and incurred an additional $5.6 million in severance expense, of which the Company anticipates approximately $1.8 million to be paid during the remainder of 2023 and $3.8 million to be paid during the first quarter of 2024.

***Operating Results***

Beginning in the three months ended December 31, 2021 through June 30, 2023, the Company reported a loss from operations and loss before income tax provision in every quarter. We have incurred these quarterly losses as a result of several factors as described below.

*Revenue Factors:* In early 2022 continuing through the fourth quarter of 2022, the financial markets experienced a broad downturn, our redemption rates were higher than our historical average, and as a result, in our Wealth Solutions segment, our asset-based recurring revenues were materially adversely affected. Beginning in the three months ended March 31, 2023 asset-based recurring revenues have been increasing sequentially since the three months ended December 31, 2022. In addition, as a result of competitive pricing pressures in our Data & Analytics segment research business, beginning in the three months ended December 31, 2022 subscription-based recurring revenues have been materially adversely affected.

*Expense Factors:* We have incurred certain expenses that are not recurring in nature and that are a direct result of significant, distinct enterprise-wide strategic initiatives that we have taken in order to reshape and streamline the organization, which we believe will increase our operational efficiencies and to reduce future operating expenses, while negatively impacting our operating results in the short-term. These actions include both internal and external related expenses associated with an accelerated investment plan announced in the first quarter of 2021, expenses associated with office closures announced in the second quarter of 2022, severance and office closure related expenses associated with an organizational realignment and entry into an outsourcing arrangement announced in the fourth quarter of 2022, as well as severance expense for a reduction in force initiative announced in the first quarter of 2023 which has continued into the fourth quarter of 2023.

As discussed above, our business is directly and indirectly affected by macroeconomic conditions and the state of global financial markets.The return to positive income before income taxes, largely depends on a combination of improved industry dynamics, including overall technology and data spending by financial institutions and an improvement in capital market valuations, including asset flows and redemption rates, both of which are outside of the Company’s control, as well as a reduction in future operating expenses, as a result of the actions taken by management as discussed above.

**Segments**

Envestnet is organized around two primary, complementary business segments. Financial information about each business segment is contained in Part I, Item 1, “Note 18—Segment Information” to the condensed consolidated financial statements included in Item 1 of this Quarterly Report. Our business segments are as follows:

- ***Envestnet Wealth Solutions*** – a leading provider of unified wealth management software and services to empower financial advisors and institutions to enable them to deliver an intelligent financial life to their clients.

- ***Envestnet Data & Analytics*** – a leading data aggregation, intelligence, and experiences platform that powers data connectivity and business intelligence across digital financial services to enable them to deliver an intelligent financial life to their clients.

Subsequent to September 30, 2023, the Company changed the composition of its reportable segments to reflect the way that the Company's chief operating decision maker reviews the operating results, assesses performance and allocates resources. As a result, the advisor-focused Wealth Analytics business has been reclassified from the Envestnet Data & Analytics segment to the Envestnet Wealth Solutions segment. The segment changes do not impact nonsegment results or the Company's consolidated balance sheets, consolidated statements of operations or consolidated statements of cash flows.

All segment information presented within this quarterly report on Form 10-Q for the quarter ended September 30, 2023 is presented in conjunction with the historical organizational structure as that is the organizational structure in place as of the balance sheet date of September 30, 2023.

As part of the annual goodwill impairment analysis, the Company will perform a quantitative goodwill impairment evaluation for each reporting unit as of October 31, 2023. As a result of the segment change and a corresponding adjustment to the composition of reporting units, as well as lower revenue and profits in 2023 compared to prior years in the Envestnet Data & Analytics segment, the Envestnet Data & Analytics reporting unit goodwill balance may be considered at risk for future impairment. Based on the results of this assessment, if the carrying value of the reporting unit exceeds its fair value, it could result in the recognition of an impairment of goodwill in the fourth quarter of 2023, and such impairment could be material.

**Key Metrics**

***Envestnet Wealth Solutions Segment***

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

| | As of | | | | |
|---|---|---|---|---|---|
| | September 30, 2022 | December 31, 2022 | March 31, 2023 | June 30, 2023 | September 30, 2023 |
| | (in millions, except accounts and advisors data) | | | | |
| *Platform Assets* | | | | | |
| Assets under Management (“AUM”) | $ 315,883 | $ 341,144 | $ 363,244 | $ 384,773 | $ 375,408 |
| Assets under Administration (“AUA”) | 350,576 | 367,412 | 379,843 | 394,078 | 398,082 |
| Total AUM/A | 666,459 | 708,556 | 743,087 | 778,851 | 773,490 |
| Subscription | 4,134,414 | 4,382,109 | 4,566,971 | 4,643,313 | 4,579,248 |
| Total Platform Assets | $ 4,800,873 | $ 5,090,665 | $ 5,310,058 | $ 5,422,164 | $ 5,352,738 |
| *Platform Accounts* | | | | | |
| AUM | 1,522,968 | 1,547,009 | 1,571,862 | 1,609,677 | 1,614,873 |
| AUA | 1,135,302 | 1,135,026 | 1,142,166 | 1,144,375 | 1,257,094 |
| Total AUM/A | 2,658,270 | 2,682,035 | 2,714,028 | 2,754,052 | 2,871,967 |
| Subscription | 15,596,403 | 15,665,020 | 15,779,980 | 15,916,955 | 16,072,848 |
| Total Platform Accounts | 18,254,673 | 18,347,055 | 18,494,008 | 18,671,007 | 18,944,815 |
| *Advisors* | | | | | |
| AUM/A | 38,417 | 38,025 | 38,611 | 38,809 | 38,078 |
| Subscription | 67,348 | 67,520 | 67,843 | 68,439 | 69,318 |
| Total Advisors | 105,765 | 105,545 | 106,454 | 107,248 | 107,396 |

The following tables provide 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 September 30, 2023 | | | | | | |
|---|---|---|---|---|---|---|---|
| | As of June 30, 2023 | Gross Sales | Redemptions | Net Flows | Market Impact | Reclass to Subscription | As of September 30, 2023 |
| | (in millions, except account data) | | | | | | |
| AUM | $ 384,773 | $ 24,754 | $ (19,846) | $ 4,908 | $ (12,821) | $ (1,452) | $ 375,408 |
| AUA | 394,078 | 39,624 | (23,889) | 15,735 | (11,731) | — | 398,082 |
| Total AUM/A | $ 778,851 | $ 64,378 | $ (43,735) | $ 20,643 | $ (24,552) | $ (1,452) | $ 773,490 |
| *Fee-Based Accounts* | *2,754,052* | | | *128,548* | | *(10,633)* | *2,871,967* |

The above AUM/A gross sales figures for the three months ended September 30, 2023 include $25.8 billion in new client conversions. We onboarded an additional $28.5 billion in subscription conversions during the three months ended September 30, 2023 bringing total conversions for the three months ended September 30, 2023 to $54.3 billion.

| | Asset Rollforward - Nine Months Ended September 30, 2023 | | | | | | |
|---|---|---|---|---|---|---|---|
| | As of December 31, 2022 | Gross Sales | Redemptions | Net Flows | Market Impact | Reclass to Subscription | As of September 30, 2023 |
| | (in millions, except account data) | | | | | | |
| AUM | $ 341,144 | $ 74,693 | $ (52,153) | $ 22,540 | $ 14,315 | $ (2,591) | $ 375,408 |
| AUA | 367,412 | 97,564 | (69,449) | 28,115 | 16,427 | (13,872) | 398,082 |
| Total AUM/A | $ 708,556 | $ 172,257 | $ (121,602) | $ 50,655 | $ 30,742 | $ (16,463) | $ 773,490 |
| *Fee-Based Accounts* | *2,682,035* | | | *289,041* | | *(99,109)* | *2,871,967* |

The above AUM/A gross sales figures for the nine months ended September 30, 2023 include $54.6 billion in new client conversions. We onboarded an additional $96.6 billion in subscription conversions during the nine months ended September 30, 2023 bringing total conversions for the nine months ended September 30, 2023 to $151.2 billion.

Asset and account figures in the "Reclass to Subscription" columns for the three and nine months ended September 30, 2023 represent enterprise customers whose billing arrangements in future periods are subscription-based, rather than asset-based. Such amounts are included in Subscription metrics at the end of the quarter in which the reclassification occurred, with no impact on total platform assets or accounts.

***Envestnet Data & Analytics Segment***

The following table provides information regarding the amount of paid-end users and firms using the Envestnet Data & Analytics platform in the periods indicated:

| | As of | | | | |
|---|---|---|---|---|---|
| | September 30, 2022 | December 31, 2022 | March 31, 2023 | June 30, 2023 | September 30 2023 |
| | (in millions, except number of firms data) | | | | |
| Number of paying users | 38.1 | 38.8 | 37.5 | 38.0 | 42.3 |
| Number of firms | 1,815 | 1,827 | 1,851 | 1,873 | 1,855 |

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**Operational Highlights**

| | Three Months Ended September 30, 2023 | 2022 | $ Change | % Change |
|---|---|---|---|---|
| | (in thousands, except percentages) | | | |
| Revenue: | | | | |
| *Envestnet Wealth Solutions:* | | | | |
| Asset-based | $ 193,901 | $ 177,131 | $ 16,770 | 9 % |
| Subscription-based | 76,813 | 75,975 | 838 | 1 % |
| Total recurring revenue | 270,714 | 253,106 | 17,608 | 7 % |
| Professional services and other revenue | 4,313 | 4,229 | 84 | 2 % |
| Total Envestnet Wealth Solutions revenue | $ 275,027 | $ 257,335 | $ 17,692 | 7 % |
| | | | | |
| *Envestnet Data & Analytics:* | | | | |
| Subscription-based | $ 38,126 | $ 47,772 | $ (9,646) | (20)% |
| Total recurring revenue | 38,126 | 47,772 | (9,646) | (20)% |
| Professional services and other revenue | 3,694 | 1,588 | 2,106 | 133 % |
| Total Envestnet Data & Analytics revenue | $ 41,820 | $ 49,360 | $ (7,540) | (15)% |
| | | | | |
| Total consolidated revenue | $ 316,847 | $ 306,695 | $ 10,152 | 3 % |
| | | | | |
| Deferred revenue fair value adjustment | — | 54 | (54) | (100)% |
| Total consolidated adjusted revenue* | $ 316,847 | $ 306,749 | $ 10,098 | 3 % |
| | | | | |
| Consolidated net income (loss) attributable to Envestnet, Inc. | $ 7,091 | $ (7,290) | $ 14,381 | ** |
| Net income (loss) attributable to Envestnet, Inc. per share - basic and diluted | $ 0.13 | $ (0.13) | $ 0.26 | ** |
| | | | | |
| Adjusted EBITDA* | $ 67,242 | $ 53,498 | $ 13,744 | 26 % |
| Adjusted net income* | $ 36,627 | $ 29,546 | $ 7,081 | 24 % |
| Adjusted net income per diluted share* | $ 0.56 | $ 0.45 | $ 0.11 | 24 % |

*Non-GAAP financial measure. See "Non-GAAP Financial Measures" below for definitions and reconciliations of non-GAAP measures.
**Not meaningful

**Results of Operations**

***Three months ended September 30, 2023 compared to three months ended September 30, 2022***

| | Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | 2022 | | | |
| | Amount | % of Revenue | Amount | % of Revenue | $ Change | % Change |
| | (in thousands) | | (in thousands) | | (in thousands) | |
| Revenue: | | | | | | |
| Asset-based | $ 193,901 | 61 % | $ 177,131 | 58 % | $ 16,770 | 9 % |
| Subscription-based | 114,939 | 36 % | 123,747 | 40 % | (8,808) | (7) % |
| Total recurring revenue | 308,840 | 97 % | 300,878 | 98 % | 7,962 | 3 % |
| Professional services and other revenue | 8,007 | 3 % | 5,817 | 2 % | 2,190 | 38 % |
| Total revenue | 316,847 | 100 % | 306,695 | 100 % | 10,152 | 3 % |
| Operating expenses: | | | | | | |
| Direct expense | 119,538 | 38 % | 110,108 | 36 % | 9,430 | 9 % |
| Employee compensation | 113,334 | 36 % | 116,837 | 38 % | (3,503) | (3) % |
| General and administrative | 49,063 | 15 % | 47,388 | 15 % | 1,675 | 4 % |
| Depreciation and amortization | 34,311 | 11 % | 33,408 | 11 % | 903 | 3 % |
| Total operating expenses | 316,246 | 100 % | 307,741 | 100 % | 8,505 | 3 % |
| Income (loss) from operations | 601 | — % | (1,046) | — % | 1,647 | * |
| Other expense, net | (4,369) | (1) % | (5,346) | (2) % | 977 | 18 % |
| Loss before income tax provision (benefit) | (3,768) | (1) % | (6,392) | (2) % | 2,624 | 41 % |
| Income tax provision (benefit) | (8,824) | (3) % | 2,271 | 1 % | (11,095) | * |
| Net income (loss) | 5,056 | 2 % | (8,663) | (3) % | 13,719 | * |
| Add: Net loss attributable to non-controlling interest | 2,035 | 1 % | 1,373 | — % | 662 | 48 % |
| Net income (loss) attributable to Envestnet, Inc. | $ 7,091 | 2 % | $ (7,290) | (2) % | $ 14,381 | * |

*Not meaningful

***Asset-based recurring revenue***

Asset-based recurring revenue increased $16.8 million, or 9%, for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 primarily due to an increase in asset values applicable to our quarterly billing cycles, which are based on the market value of the customers' assets on our platforms as of the end of the previous quarter.

The number of financial advisors with asset-based recurring revenue on our technology platforms remained consistent with approximately 38,000 as of September 30, 2023 and 2022, respectively, and the number of AUM/A client accounts increased from approximately 2.7 million as of September 30, 2022 to approximately 2.9 million as of September 30, 2023.

As a percentage of total revenue, asset-based recurring revenue increased 3% points for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 primarily due to the overall increase in asset-based recurring revenue coupled with the decrease in subscription-based revenue period over period.

***Subscription-based recurring revenue***

Subscription-based recurring revenue decreased $8.8 million, or 7%, for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 primarily due to a decrease of $9.6 million in the Envestnet Data & Analytics segment, which is primarily attributable to a loss in access to data in the research business and continued impact from the regional banking crisis which led to our customer’s cost cutting initiatives, pricing pressure and project delays, partially offset by an increase of $0.8 million in the Envestnet Wealth Solutions segment, which can be attributed to new and existing customer growth.

As a percentage of total revenue, subscription-based recurring revenue decreased 4% points for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 primarily due to the overall decrease in subscription-based recurring revenue coupled with the increase in asset-based revenue period over period.

***Professional services and other revenue***

Professional services and other revenue increased $2.2 million, or 38%, for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 primarily due to an increase in revenue recognized in the Data & Analytics segment as a result of point in time revenue recognized on a customer deployment.

***Direct expense***

Direct expense increased $9.4 million, or 9%, for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 primarily due to an increase in asset-based direct expense, which directly correlates with the increase to asset-based recurring revenue during the period.

***Employee compensation***

Employee compensation decreased $3.5 million, or 3%, for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 primarily due to decreases in salaries, benefits and related payroll taxes of $10.4 million, which is primarily a result of the outsourcing arrangement with TCS in the Envestnet Data & Analytics segment, which shifted certain expenses from employee compensation to general and administrative expense, a reduction in force initiative in 2023 and an organizational realignment in the fourth quarter of 2022, a decrease in incentive compensation of $1.8 million and other immaterial decreases within employee compensation, partially offset by an increase in severance expense of $10.4 million as a result of the reduction in force initiative and organizational realignment.

***General and administrative***

General and administrative expenses increased $1.7 million, or 4%, for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 primarily due to increases in software and maintenance charges of $6.1 million which is primarily a result of the outsourcing arrangement with TCS and litigation related expense of $2.7 million. These increases were partially offset by decreases in restructuring charges and transaction costs of $2.9 million, professional fees of $1.3 million, marketing costs of $1.0 million, travel and entertainment expense of $1.0 million and other immaterial decreases within general and administrative expense.

***Depreciation and amortization***

Depreciation and amortization expense increased $0.9 million, or 3%, for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 primarily due to increases in amortization related to internally developed software of $4.1 million, partially offset by decreases in amortization related to intangible assets of $3.5 million.

***Other expense, net***

Other expense, net decreased $1.0 million, or 18%, for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 primarily due to a $2.9 million fair market value adjustment to investment in private company, partially offset by a $1.6 million increase in interest expense, net.

***Income tax provision (benefit)***

Under ASC 740-270-25, we are required to report income tax expense by applying a projected AETR to ordinary pre-tax book income for the interim period. The tax impact of discrete items is accounted for separately in the period in which they occur. The ETR for the quarter is the result of the projected AETR applied to actual pre-tax book income plus discrete items as a percentage of pre-tax book income. Therefore, a change in pre-tax book income, either forecasted or actual year-to-date, from one period to the next will cause the ETR to change.

For the three months ended September 30, 2023, our effective tax rate of 234.2% differed from the statutory rate primarily due to the change in forecasted and actual year-to-date pre-tax book income as well as an increase in the valuation allowance we have placed on a portion of U.S. deferred tax assets which includes the impact of IRC Section 174, permanent book-tax differences, uncertain tax positions and the impact of state and local taxes offset by federal and state R&D credits.

For the three months ended September 30, 2022, our effective tax rate of (35.5)% differed from the statutory rate primarily due to the increase in the valuation allowance the Company has placed on a portion of its U.S. deferred tax assets which includes the impact of the Redi2 and Truelytics acquisitions and IRC Section 174, permanent book-tax differences, and the impact of state and local taxes offset by federal and state R&D credits.

***Nine months ended September 30, 2023 compared to nine months ended September 30, 2022***

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | 2022 | | | |
| | Amount | % of Revenue | Amount | % of Revenue | $ Change | % Change |
| | (in thousands) | | (in thousands) | | (in thousands) | |
| Revenue: | | | | | | |
| Asset-based | $ 556,595 | 60 % | $ 571,820 | 60 % | $ (15,225) | (3)% |
| Subscription-based | 346,977 | 37 % | 356,601 | 38 % | (9,624) | (3)% |
| Total recurring revenue | 903,572 | 97 % | 928,421 | 98 % | (24,849) | (3)% |
| Professional services and other revenue | 24,416 | 3 % | 18,489 | 2 % | 5,927 | 32 % |
| Total revenue | 927,988 | 100 % | 946,910 | 100 % | (18,922) | (2)% |
| Operating expenses: | | | | | | |
| Direct expense | 352,024 | 38 % | 361,872 | 38 % | (9,848) | (3)% |
| Employee compensation | 344,646 | 37 % | 369,453 | 39 % | (24,807) | (7)% |
| General and administrative | 156,028 | 17 % | 157,867 | 17 % | (1,839) | (1)% |
| Depreciation and amortization | 101,058 | 11 % | 97,208 | 10 % | 3,850 | 4 % |
| Total operating expenses | 953,756 | 103 % | 986,400 | 104 % | (32,644) | (3)% |
| Loss from operations | (25,768) | (3)% | (39,490) | (4)% | 13,722 | 35 % |
| Other expense, net | (19,706) | (2)% | (9,691) | (1)% | (10,015) | (103)% |
| Loss before income tax provision (benefit) | (45,474) | (5)% | (49,181) | (5)% | 3,707 | 8 % |
| Income tax provision (benefit) | 15,363 | 2 % | (1,542) | — % | 16,905 | * |
| Net loss | (60,837) | (7)% | (47,639) | (5)% | (13,198) | (28)% |
| Add: Net loss attributable to non-controlling interest | 5,284 | 1 % | 3,205 | — % | 2,079 | 65 % |
| Net loss attributable to Envestnet, Inc. | $ (55,553) | (6)% | $ (44,434) | (5)% | $ (11,119) | (25)% |

*Not meaningful

***Asset-based recurring revenue***

Asset-based recurring revenue decreased $15.2 million, or 3%, for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to a decrease in asset values applicable to our quarterly billing cycles, which are based on the market value of the customers' assets on our platforms as of the end of the previous quarter.

The number of financial advisors with asset-based recurring revenue on our technology platforms remained consistent with approximately 38,000 as of September 30, 2023 and 2022, respectively, and the number of AUM/A client accounts increased from approximately 2.7 million as of September 30, 2022 to approximately 2.9 million as of September 30, 2023.

***Subscription-based recurring revenue***

Subscription-based recurring revenue decreased $9.6 million, or 3%, for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to a decrease of $20.4 million in the Envestnet Data & Analytics segment, which is primarily attributable to a loss in access to data in the research business and continued impact from the regional banking crisis which led to our customer's cost cutting initiatives, partially offset by an increase of $10.7 million in the Envestnet Wealth Solutions segment, which can be attributed to new and existing customer growth.

***Professional services and other revenue***

Professional services and other revenue increased $5.9 million, or 32%, for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to timing of the completion of customer projects and deployments and an increase in revenue recognized in the Data & Analytics segment as a result of point in time revenue recognized on a customer deployment.

***Direct expense***

Direct expense decreased $9.8 million, or 3%, for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to a decrease in asset-based direct expense, which directly correlates with the decrease to asset-based recurring revenue during the period.

***Employee compensation***

Employee compensation decreased $24.8 million, or 7%, for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to decreases in salaries, benefits and related payroll taxes of $28.5 million, which is primarily a result of the outsourcing arrangement with TCS in the Envestnet Data & Analytics segment, which shifted certain expenses from employee compensation to general and administrative expense, a reduction in force initiative in 2023 and an organizational realignment in the fourth quarter of 2022, a decrease in non-cash compensation expense of $4.4 million, incentive compensation of $1.9 million and other immaterial decreases within employee compensation, partially offset by an increase in severance expense of $14.5 million as a result of the reduction in force initiative and organizational realignment.

***General and administrative***

General and administrative expenses decreased $1.8 million, or 1%, for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to decreases in restructuring charges and transaction costs of $17.3 million, marketing costs of $4.0 million and occupancy costs of $3.6 million. These decreases were partially offset by increases in software and maintenance charges of $22.0 million which is primarily a result of the outsourcing arrangement with TCS and other immaterial increases within general and administrative expense.

***Depreciation and amortization***

Depreciation and amortization expense increased $3.9 million, or 4%, for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to increases in amortization related to internally developed software of $10.0 million, partially offset by decreases in amortization related to intangible assets of $6.0 million.

***Other expense, net***

Other expense, net increased $10.0 million, or 103%, for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to a $6.4 million decrease in dilution gain on equity method investee share issuance, a $3.5 million increase in interest expense, net and a $2.9 million increase in loss allocations from equity method investments, partially offset by a $2.8 million fair market value adjustment to investment in private company.

***Income tax provision (benefit)***

For the nine months ended September 30, 2023, our effective tax rate of (33.8%) differed from the statutory rate primarily due to the increase in the valuation allowance we have placed on a portion of U.S. deferred tax assets which includes the impact of IRC Section 174, permanent book-tax differences, uncertain tax positions and the impact of state and local taxes offset by federal and state R&D credits.

For the nine months ended September 30, 2022, our effective tax rate of 3.1% differed from the statutory rate primarily due to the increase in the valuation allowance the Company has placed on a portion of its U.S. deferred tax assets which includes the impact of the Redi2 and Truelytics acquisitions and IRC Section 174, permanent book-tax differences, the impact of state and local taxes offset by federal and state R&D credits and the partial reserve release of an uncertain tax position due to the expiration of a statute of limitations.

**Segment Results**

Business segments are generally organized around our service offerings. Financial information about each of our two business segments is contained in “Note 18—Segment Information” to the condensed consolidated financial statements.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| | (in thousands) | | | |
| Envestnet Wealth Solutions | $ 31,392 | $ 20,607 | $ 78,254 | $ 49,844 |
| Envestnet Data & Analytics | (9,115) | 74 | (27,888) | (9,218) |
| Nonsegment operating expenses | (21,676) | (21,727) | (76,134) | (80,116) |
| Income (loss) from operations | 601 | (1,046) | (25,768) | (39,490) |
| Other expense, net | (4,369) | (5,346) | (19,706) | (9,691) |
| Consolidated loss before income tax provision (benefit) | (3,768) | (6,392) | (45,474) | (49,181) |
| Income tax provision (benefit) | (8,824) | 2,271 | 15,363 | (1,542) |
| Consolidated net income (loss) | 5,056 | (8,663) | (60,837) | (47,639) |
| Add: Net loss attributable to non-controlling interest | 2,035 | 1,373 | 5,284 | 3,205 |
| Consolidated net income (loss) attributable to Envestnet, Inc. | $ 7,091 | $ (7,290) | $ (55,553) | $ (44,434) |

***Envestnet Wealth Solutions***

The following tables present income from operations for the Envestnet Wealth Solutions segment:

***Three months ended September 30, 2023 compared to three months ended September 30, 2022***

| | Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | 2022 | | | |
| | Amount | % of Revenue | Amount | % of Revenue | $ Change | % Change |
| | (in thousands) | | (in thousands) | | (in thousands) | |
| Revenue: | | | | | | |
| Asset-based | $ 193,901 | 71 % | $ 177,131 | 69 % | $ 16,770 | 9 % |
| Subscription-based | 76,813 | 28 % | 75,975 | 30 % | 838 | 1 % |
| Total recurring revenue | 270,714 | 98 % | 253,106 | 98 % | 17,608 | 7 % |
| Professional services and other revenue | 4,313 | 2 % | 4,229 | 2 % | 84 | 2 % |
| Total revenue | 275,027 | 100 % | 257,335 | 100 % | 17,692 | 7 % |
| Operating expenses: | | | | | | |
| Direct expense | 114,005 | 41 % | 103,618 | 40 % | 10,387 | 10 % |
| Employee compensation | 76,449 | 28 % | 77,010 | 30 % | (561) | (1) % |
| General and administrative | 28,646 | 10 % | 31,463 | 12 % | (2,817) | (9) % |
| Depreciation and amortization | 24,535 | 9 % | 24,637 | 10 % | (102) | — % |
| Total operating expenses | 243,635 | 89 % | 236,728 | 92 % | 6,907 | 3 % |
| Income from operations | $ 31,392 | 11 % | $ 20,607 | 8 % | $ 10,785 | 52 % |

***Asset-based recurring revenue***

Asset-based recurring revenue increased $16.8 million, or 9%, for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 primarily due to an increase in asset values applicable to our quarterly billing cycles, which are based on the market value of the customers' assets on our platforms as of the end of the previous quarter.

The number of financial advisors with asset-based recurring revenue on our technology platforms remained consistent with approximately 38,000 as of September 30, 2023 and 2022, respectively, and the number of AUM/A client accounts increased from approximately 2.7 million as of September 30, 2022 to approximately 2.9 million as of September 30, 2023.

***Subscription-based recurring revenue***

Subscription-based recurring revenue increased $0.8 million, or 1%, for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 primarily due to new and existing customer growth.

***Professional services and other revenue***

Professional services and other revenue increased $0.1 million, or 2%, for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 primarily due to timing of the completion of customer projects and deployments.

***Direct expense***

Direct expense increased $10.4 million, or 10%, for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 primarily due an increase in asset-based direct expense, which directly correlates with the increase in asset-based recurring revenue during the period.

***Employee compensation***

Employee compensation decreased $0.6 million, or 1%, for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 primarily due to decreases in salaries, benefits and related payroll taxes of $2.4 million, which is primarily a result of a reduction in force initiative in 2023 and an organizational realignment in the fourth quarter of 2022, and other immaterial decreases within employee compensation, partially offset by an increase in severance expense of $3.8 million as a result of the reduction in force initiative and organizational realignment.

***General and administrative***

General and administrative expenses decreased $2.8 million, or 9%, for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 primarily due to decreases in professional fees of $1.4 million and other immaterial decreases within general and administrative expense.

***Depreciation and amortization***

Depreciation and amortization expense decreased $0.1 million for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 primarily due to decreases in amortization related to intangible assets of $3.0 million, partially offset by increases in amortization related to internally developed software of $2.6 million.

***Nine months ended September 30, 2023 compared to nine months ended September 30, 2022***

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | 2022 | | | |
| | Amount | % of Revenue | Amount | % of Revenue | $ Change | % Change |
| | (in thousands) | | (in thousands) | | (in thousands) | |
| Revenue: | | | | | | |
| Asset-based | $ 556,595 | 69 % | $ 571,820 | 71 % | $ (15,225) | (3) % |
| Subscription-based | 228,807 | 28 % | 218,080 | 27 % | 10,727 | 5 % |
| Total recurring revenue | 785,402 | 98 % | 789,900 | 98 % | (4,498) | (1) % |
| Professional services and other revenue | 17,866 | 2 % | 13,003 | 2 % | 4,863 | 37 % |
| Total revenue | 803,268 | 100 % | 802,903 | 100 % | 365 | — % |
| Operating expenses: | | | | | | |
| Direct expense | 336,073 | 42 % | 343,148 | 43 % | (7,075) | (2) % |
| Employee compensation | 229,320 | 29 % | 234,413 | 29 % | (5,093) | (2) % |
| General and administrative | 86,438 | 11 % | 103,824 | 13 % | (17,386) | (17) % |
| Depreciation and amortization | 73,183 | 9 % | 71,674 | 9 % | 1,509 | 2 % |
| Total operating expenses | 725,014 | 90 % | 753,059 | 94 % | (28,045) | (4) % |
| Income from operations | $ 78,254 | 10 % | $ 49,844 | 6 % | $ 28,410 | 57 % |

***Asset-based recurring revenue***

Asset-based recurring revenue decreased $15.2 million, or 3%, for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to a decrease in asset values applicable to our quarterly billing cycles, which are based on the market value of the customers' assets on our platforms as of the end of the previous quarter.

The number of financial advisors with asset-based recurring revenue on our technology platforms remained consistent with approximately 38,000 as of September 30, 2023 and 2022, respectively, and the number of AUM/A client accounts increased from approximately 2.7 million as of September 30, 2022 to approximately 2.9 million as of September 30, 2023.

***Subscription-based recurring revenue***

Subscription-based recurring revenue increased $10.7 million, or 5%, for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to new and existing customer growth.

***Professional services and other revenue***

Professional services and other revenue increased $4.9 million, or 37%, for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to timing of the completion of customer projects and deployments.

***Direct expense***

Direct expense decreased $7.1 million, or 2%, for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due a decrease in asset-based direct expense, which directly correlates with the decrease in asset-based recurring revenue during the period.

***Employee compensation***

Employee compensation decreased $5.1 million, or 2%, for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to decreases in salaries, benefits and related payroll taxes of $5.9 million, which is primarily a result of a reduction in force initiative in 2023 and an organizational realignment in the fourth quarter of 2022, a decrease in non-cash compensation expense of $1.9 million and other immaterial decreases within employee compensation, partially offset by an increase in severance expense of $5.0 million as a result of the reduction in force initiative and organizational realignment.

***General and administrative***

General and administrative expenses decreased $17.4 million, or 17%, for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to decreases in restructuring charges and transaction costs of $12.4 million, marketing costs of $3.1 million, occupancy costs of $2.0 million and other immaterial decreases within general and administrative expense, partially offset by increases in software and maintenance charges of $1.3 million.

***Depreciation and amortization***

Depreciation and amortization expense increased $1.5 million, or 2%, for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to increases in amortization related to internally developed software of $6.2 million, partially offset by decreases in amortization related to intangible assets of $5.0 million.

***Envestnet Data & Analytics***

The following tables present income (loss) from operations for the Envestnet Data & Analytics segment:

***Three months ended September 30, 2023 compared to three months ended September 30, 2022***

| | Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | 2022 | | | |
| | Amount | % of Revenue | Amount | % of Revenue | $ Change | % Change |
| | (in thousands) | | (in thousands) | | (in thousands) | |
| Revenue: | | | | | | |
| Subscription-based | $ 38,126 | 91 % | $ 47,772 | 97 % | $ (9,646) | (20)% |
| Professional services and other revenue | 3,694 | 9 % | 1,588 | 3 % | 2,106 | 133 % |
| Total revenue | 41,820 | 100 % | 49,360 | 100 % | (7,540) | (15)% |
| Operating expenses: | | | | | | |
| Direct expense | 5,533 | 13 % | 6,490 | 13 % | (957) | (15)% |
| Employee compensation | 22,819 | 55 % | 26,174 | 53 % | (3,355) | (13)% |
| General and administrative | 12,807 | 31 % | 7,851 | 16 % | 4,956 | 63 % |
| Depreciation and amortization | 9,776 | 23 % | 8,771 | 18 % | 1,005 | 11 % |
| Total operating expenses | 50,935 | 122 % | 49,286 | 100 % | 1,649 | 3 % |
| Income (loss) from operations | $ (9,115) | (22) % | $ 74 | — % | $ (9,189) | * |

*Not meaningful

***Subscription-based recurring revenue***

Subscription-based recurring revenue decreased $9.6 million, or 20%, for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 primarily due to a loss in access to data in the research business and continued impact from the regional banking crisis which led to our customer's cost cutting initiatives.

As a percentage of segment revenue, subscription-based recurring revenue decreased 6% points for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 primarily due to a decrease in subscription-based revenue compared to an increase in professional services and other revenue.

***Professional services and other revenue***

Professional services and other revenue increased $2.1 million, or 133%, for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 primarily due to an increase in point in time revenue recognized on a customer deployment.

As a percentage of segment revenue, subscription-based recurring revenue increased 6% points for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 primarily due to an increase in professional services and other revenue compared to a decrease in subscription-based revenue.

***Direct expense***

Direct expense decreased $1.0 million, or 15%, for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 primarily due to the decrease in subscription-based recurring revenue during the period.

***Employee compensation***

Employee compensation decreased $3.4 million, or 13%, for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 primarily due to decreases in salaries, benefits and related payroll taxes of $7.1 million, which is primarily a result of the outsourcing arrangement with TCS which shifted certain expenses from employee compensation to general and administrative expense, a reduction in force initiative in 2023 and an organizational realignment in the fourth quarter of 2022 and other immaterial decreases within employee compensation, partially offset by an increase in severance expense of $6.0 million as a result of the reduction in force initiative and organizational realignment.

***General and administrative***

General and administrative expenses increased $5.0 million, or 63%, for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 primarily due to increases in software and maintenance charges of $5.6 million, which is primarily a result of the outsourcing arrangement with TCS and an increase in litigation related expense of $2.7 million. These increases were partially offset by a decrease in restructuring charges and transaction costs of $1.4 million and other immaterial decreases within general and administrative expense.

As a percentage of segment revenue, general and administrative expense increased 15% points for three months ended September 30, 2023 compared to the three months ended September 30, 2022 primarily due to the outsourcing arrangement with TCS as well as the overall decrease in segment revenue period over period.

***Depreciation and amortization***

Depreciation and amortization expense increased $1.0 million, or 11%, for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 primarily due to increases in amortization related to internally developed software of $1.5 million, partially offset by decreases in amortization related to intangible assets of $0.6 million.

As a percentage of segment revenue, depreciation and amortization expense increased 5% points for three months ended September 30, 2023 compared to the three months ended September 30, 2022 primarily due to a decrease in segment revenue period over period as well as the overall increase in depreciation and amortization expense period over period.

***Nine months ended September 30, 2023 compared to nine months ended September 30, 2022***

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | 2022 | | | |
| | Amount | % of Revenue | Amount | % of Revenue | $ Change | % Change |
| | (in thousands) | | (in thousands) | | (in thousands) | |
| Revenue: | | | | | | |
| Subscription-based | $ 118,170 | 95 % | $ 138,521 | 96 % | $ (20,351) | (15) % |
| Professional services and other revenue | 6,550 | 5 % | 5,486 | 4 % | 1,064 | 19 % |
| Total revenue | 124,720 | 100 % | 144,007 | 100 % | (19,287) | (13) % |
| Operating expenses: | | | | | | |
| Direct expense | 15,951 | 13 % | 18,724 | 13 % | (2,773) | (15) % |
| Employee compensation | 65,974 | 53 % | 80,334 | 56 % | (14,360) | (18) % |
| General and administrative | 42,808 | 34 % | 28,633 | 20 % | 14,175 | 50 % |
| Depreciation and amortization | 27,875 | 22 % | 25,534 | 18 % | 2,341 | 9 % |
| Total operating expenses | 152,608 | 122 % | 153,225 | 106 % | (617) | — % |
| Loss from operations | $ (27,888) | (22) % | $ (9,218) | (6) % | $ (18,670) | * |

*Not meaningful

***Subscription-based recurring revenue***

Subscription-based recurring revenue decreased $20.4 million, or 15%, for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to a loss in access to data in the research business and continued impact from the regional banking crisis which led to our customer's cost cutting initiatives.

***Professional services and other revenue***

Professional services and other revenue increased $1.1 million, or 19%, for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to an increase in point in time revenue recognized on a customer deployment, partially offset by timing of the completion of customer projects and deployments.

***Direct expense***

Direct expense decreased $2.8 million, or 15%, for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to the decrease in subscription-based recurring revenue.

***Employee compensation***

Employee compensation decreased $14.4 million, or 18%, for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to decreases in salaries, benefits and related payroll taxes of $19.6 million, which is primarily a result of the outsourcing arrangement with TCS which shifted certain expenses from employee compensation to general and administrative expense, a reduction in force initiative in 2023 and an organizational realignment in the fourth quarter of 2022, incentive compensation of $2.4 million and other immaterial decreases within employee compensation, partially offset by an increase in severance expense of $10.4 million as a result of the reduction in force initiative and organizational realignment.

As a percentage of segment revenue, employee compensation expense decreased 3% points for nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to the outsourcing arrangement with TCS, partially offset by a decrease in segment revenue period over period.

***General and administrative***

General and administrative expenses increased $14.2 million, or 50%, for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to increases in software and maintenance charges of $19.3 million, which is primarily a result of the outsourcing arrangement with TCS, partially offset by decreases in restructuring charges and transaction costs of $1.8 million, litigation related expense of $1.2 million and other immaterial decreases within general and administrative expense.

As a percentage of segment revenue, general and administrative expense increased 14% points for nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to the outsourcing arrangement with TCS as well as a decrease in segment revenue period over period.

***Depreciation and amortization***

Depreciation and amortization expense increased $2.3 million, or 9%, for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to increases in amortization related to internally developed software of $3.8 million, partially offset by decreases in amortization related to intangible assets of $1.0 million.

As a percentage of segment revenue, depreciation and amortization expense increased 4% points for nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to a decrease in segment revenue period over period as well as the overall increase in depreciation and amortization expense period over period.

***Nonsegment***

The following tables present nonsegment operating expenses:

***Three months ended September 30, 2023 compared to three months ended September 30, 2022***

| | Three Months Ended September 30, 2023 | Three Months Ended September 30, 2022 | $ Change | % Change |
|---|---|---|---|---|
| | (in thousands, except percentages) | | | |
| Operating expenses: | | | | |
| Employee compensation | $ 14,066 | $ 13,653 | $ 413 | 3 % |
| General and administrative | 7,610 | 8,074 | (464) | (6) % |
| Nonsegment operating expenses | $ 21,676 | $ 21,727 | $ (51) | — % |

***Employee compensation***

Employee compensation increased $0.4 million, or 3%, for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 primarily due to an increase in non-cash compensation expense of $1.1 million and other immaterial increases within employee compensation, partially offset by a decrease in salaries, benefits and related payroll taxes of $0.9 million.

***General and administrative***

General and administrative expenses decreased $0.5 million, or 6%, for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 primarily due to a decrease in transaction costs of $1.4 million, partially offset by other immaterial increases within general and administrative expense.

***Nine months ended September 30, 2023 compared to nine months ended September 30, 2022***

| | Nine Months Ended September 30, | | $ | % |
|---|---|---|---|---|
| | 2023 | 2022 | Change | Change |
| | (in thousands, except percentages) | | | |
| Operating expenses: | | | | |
| Employee compensation | $ 49,352 | $ 54,706 | $ (5,354) | (10)% |
| General and administrative | 26,782 | 25,410 | 1,372 | 5 % |
| Nonsegment operating expenses | $ 76,134 | $ 80,116 | $ (3,982) | (5)% |

***Employee compensation***

Employee compensation decreased $5.4 million, or 10%, for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to decreases in salaries, benefits and related payroll taxes of $3.0 million, non-cash compensation expense of $2.0 million and other immaterial decreases within employee compensation.

***General and administrative***

General and administrative expenses increased $1.4 million, or 5%, for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to an increase in governance related expense of $1.8 million as a result of expense associated with activist shareholder activity during the three months ended March 31, 2023, professional fees of $1.6 million and software and maintenance charges of $1.4 million. These increases were partially offset by decreases in transaction costs of $3.1 million and other immaterial decreases in general and administrative expense.

**Non-GAAP Financial Measures**

In addition to reporting results according to GAAP, we also disclose certain non-GAAP financial measures to enhance the understanding of our operating performance. We believe these non-GAAP financial measures are useful supplemental metrics that provide greater transparency into our results of operations and can assist both management and investors in understanding and assessing the operational performance of our business on a consistent basis, as it removes the impact of non-cash or non-recurring items from operating results and provides an additional tool to compare our results with other companies in the industry, many of which present similar non-GAAP financial measures. Those measures include “adjusted revenue,” “adjusted EBITDA,” “adjusted net income” and “adjusted net income per diluted share.”

“Adjusted revenue” excludes the effect of purchase accounting on the fair value of acquired deferred revenue. On January 1, 2022, the Company adopted ASU 2021-08 whereby it now accounts for contract assets and contract liabilities obtained upon a business combination in accordance with ASC 606. Prior to the adoption of ASU 2021-08, we recorded 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 did not reflect the full amount of revenue that would have been recorded by these entities had they remained stand-alone entities. Adjusted revenue has limitations as a financial measure, should be considered as supplemental in nature and is not meant as a substitute for revenue prepared in accordance with GAAP.

“Adjusted EBITDA” represents net income (loss) before deferred revenue fair value adjustment, interest income, interest expense, income tax provision (benefit), depreciation and amortization, non-cash compensation expense, restructuring charges and transaction costs, severance expense, litigation, regulatory and other governance related expenses, foreign currency, non-income tax expense adjustment, fair market value adjustment to investment in private company, dilution gain on equity method investee share issuance, loss allocations from equity method investments and (income) loss attributable to non-controlling interest.

“Adjusted net income” represents net income (loss) before income tax provision (benefit), deferred revenue fair value adjustment, non-cash interest expense, cash interest on our Convertible Notes, non-cash compensation expense, restructuring charges and transaction costs, severance expense, amortization of acquired intangibles, litigation, regulatory and other governance related expenses, foreign currency, non-income tax expense adjustment, fair market value adjustment to investment in private company, dilution gain on equity method investee share issuance, loss allocations from equity method investments and (income) loss attributable to non-controlling interest. Reconciling items are presented gross of tax, and a normalized tax rate is applied to the total of all reconciling items to arrive at adjusted net income. The normalized tax rate is based solely on the estimated blended statutory income tax rates in the jurisdictions in which we operate. We monitor the normalized tax rate based on events or trends that could materially impact the rate, including tax legislation changes and changes in the geographic mix of our operations.

“Adjusted net income per diluted share” represents adjusted net income attributable to common stockholders divided by the diluted number of weighted average shares outstanding. For purposes of the adjusted net income per share calculation, we assume all potential shares to be issued in connection with our Convertible Notes are dilutive.

Our Board and management use these non-GAAP financial measures:

- 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 concerning our financial performance.

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

We also present adjusted revenue, adjusted EBITDA, adjusted net income and adjusted net income per diluted share as supplemental performance measures because we believe that they provide our Board, management and investors with additional information to assess our performance. Adjusted revenue provide comparisons from period to period by excluding the effect of purchase accounting on the fair value of acquired deferred revenue. Adjusted EBITDA provides 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 (benefit), non-income tax expense, restructuring charges and transaction costs, severance expense, litigation, regulatory and other governance related expenses, foreign currency, loss allocations from equity method investments, pre-tax (income) 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 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 revenue, adjusted EBITDA, adjusted net income and adjusted net income per diluted share are useful to investors in evaluating our operating performance because securities analysts use adjusted revenue, adjusted EBITDA, adjusted net income and adjusted net income per diluted share as supplemental measures to evaluate the overall performance of companies, and we anticipate that our investors and analyst presentations will include adjusted revenue, adjusted EBITDA, adjusted net income and adjusted net income per diluted share.

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

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

- Adjusted revenue, adjusted EBITDA, adjusted net income and adjusted net income per diluted share do not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments;
- Adjusted revenue, adjusted EBITDA, adjusted net income and adjusted net income per diluted share do not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted revenue, adjusted EBITDA, adjusted net income and adjusted net income per diluted share do not reflect non-cash components of employee compensation;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized often will have to be replaced in the future, and adjusted EBITDA does not reflect any cash requirements for such replacements;
- Due to either net losses before income tax expense or the use of federal and state net operating loss carryforwards, we paid net cash of $13.6 million and $7.9 million for the nine months ended September 30, 2023 and 2022, respectively. In the event that we generate taxable income and our existing net operating loss carryforwards for federal and state income taxes have been fully utilized or have expired, income tax payments will be higher; and
- Other companies in our industry may calculate adjusted revenue, adjusted EBITDA, adjusted net income and adjusted net income per diluted share differently than we do, limiting their usefulness as a comparative measure.

Management compensates for the inherent limitations associated with using adjusted revenue, adjusted EBITDA, adjusted net income and adjusted net income per diluted share through disclosure of such limitations, presentation of our financial statements in accordance with GAAP and reconciliation of adjusted revenue to revenue, the most directly comparable GAAP measure and adjusted EBITDA, adjusted net income and adjusted net income per diluted share to net income and net income per share, the most directly comparable GAAP measures. Further, our management also reviews GAAP measures and evaluates individual measures that are not included in some or all of our non-GAAP financial measures, such as our level of capital expenditures and interest income, among other measures.

The following tables set forth reconciliations of GAAP financial measures to non-GAAP financial measures. See "Footnotes to GAAP to Non-GAAP Reconciliations" below for further detail on adjustments.

The following table sets forth a reconciliation of total revenue to adjusted revenue:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| | (in thousands) | | | |
| Total revenue | $ 316,847 | $ 306,695 | $ 927,988 | $ 946,910 |
| Deferred revenue fair value adjustment [1] | — | 54 | 69 | 162 |
| Adjusted revenue | $ 316,847 | $ 306,749 | $ 928,057 | $ 947,072 |

The following table sets forth a reconciliation of net income (loss) to adjusted EBITDA:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| | (in thousands) | | | |
| Net income (loss) | $ 5,056 | $ (8,663) | $ (60,837) | $ (47,639) |
| Add (deduct): | | | | |
| Deferred revenue fair value adjustment [1] | — | 54 | 69 | 162 |
| Interest income | (1,553) | (1,239) | (4,567) | (2,273) |
| Interest expense | 6,202 | 4,242 | 19,053 | 13,307 |
| Income tax provision (benefit) [2][3] | (8,824) | 2,271 | 15,363 | (1,542) |
| Depreciation and amortization | 34,311 | 33,408 | 101,058 | 97,208 |
| Non-cash compensation expense [4] | 17,298 | 17,265 | 58,141 | 62,583 |
| Restructuring charges and transaction costs [5] | 1,695 | 3,895 | 12,366 | 27,267 |
| Severance expense [6] | 11,482 | 1,125 | 25,904 | 11,379 |
| Litigation, regulatory and other governance related expenses [7] | 604 | (2,050) | 5,823 | 5,333 |
| Foreign currency [8] | 223 | 308 | 330 | 613 |
| Non-income tax expense adjustment [9] | (26) | (325) | (224) | (112) |
| Fair market value adjustment to investment in private company [10] | (2,871) | — | (2,804) | — |
| Dilution gain on equity method investee share issuance [11] | — | — | (546) | (6,934) |
| Loss allocations from equity method investments [12] | 2,368 | 2,387 | 8,240 | 5,332 |
| Loss attributable to non-controlling interest [13] | 1,277 | 820 | 3,082 | 1,637 |
| Adjusted EBITDA | $ 67,242 | $ 53,498 | $ 180,451 | $ 166,321 |

The following table sets forth a reconciliation of net income (loss) to adjusted net income and adjusted net income per diluted share:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| | (in thousands, except share and per share information) | | | |
| Net income (loss) | $ 5,056 | $ (8,663) | $ (60,837) | $ (47,639) |
| Income tax provision (benefit) [2][3] | (8,824) | 2,271 | 15,363 | (1,542) |
| Loss before income tax provision (benefit) | (3,768) | (6,392) | (45,474) | (49,181) |
| Add (deduct): | | | | |
| Deferred revenue fair value adjustment [1] | — | 54 | 69 | 162 |
| Non-cash interest expense [14] | 1,389 | 1,443 | 4,258 | 4,917 |
| Cash interest - Convertible Notes [15] | 4,368 | 2,479 | 13,476 | 7,439 |
| Non-cash compensation expense [4] | 17,298 | 17,265 | 58,141 | 62,583 |
| Restructuring charges and transaction costs [5] | 1,695 | 3,895 | 12,366 | 27,267 |
| Severance expense [6] | 11,482 | 1,125 | 25,904 | 11,379 |
| Amortization of acquired intangibles [16] | 15,124 | 18,649 | 47,784 | 53,814 |
| Litigation, regulatory and other governance related expenses [7] | 604 | (2,050) | 5,823 | 5,333 |
| Foreign currency [8] | 223 | 308 | 330 | 613 |
| Non-income tax expense adjustment [9] | (26) | (325) | (224) | (112) |
| Fair market value adjustment to investment in private company [10] | (2,871) | — | (2,804) | — |
| Dilution gain on equity method investee share issuance [11] | — | — | (546) | (6,934) |
| Loss allocations from equity method investments [12] | 2,368 | 2,387 | 8,240 | 5,332 |
| Loss attributable to non-controlling interest [13] | 1,277 | 820 | 3,082 | 1,637 |
| Adjusted net income before income tax effect | 49,163 | 39,658 | 130,425 | 124,249 |
| Income tax effect [17] | (12,536) | (10,112) | (33,258) | (31,683) |
| Adjusted net income | $ 36,627 | $ 29,546 | $ 97,167 | $ 92,566 |
| | | | | |
| Basic number of weighted average shares outstanding | 54,562,270 | 55,226,777 | 54,380,231 | 55,109,387 |
| Effect of dilutive shares: | | | | |
| Convertible Notes | 10,811,884 | 9,898,549 | 11,176,254 | 9,898,549 |
| Non-vested RSUs and PSUs | 361,982 | 208,367 | 438,520 | 378,061 |
| Options to purchase common stock | 46,364 | 74,559 | 64,507 | 123,267 |
| Diluted number of weighted average shares outstanding | 65,782,500 | 65,408,252 | 66,059,512 | 65,509,264 |
| Adjusted net income per diluted share | $ 0.56 | $ 0.45 | $ 1.47 | $ 1.41 |

The following tables set forth the reconciliation of revenue to adjusted revenue and income (loss) from operations to adjusted EBITDA for each segment for the three and nine months ended September 30, 2023 and 2022:

| | Three Months Ended September 30, 2023 | | | |
|---|---|---|---|---|
| | Envestnet Wealth Solutions | Envestnet Data & Analytics | Nonsegment | Total |
| | (in thousands) | | | |
| Revenue | $ 275,027 | $ 41,820 | $ — | $ 316,847 |
| Deferred revenue fair value adjustment (1) | — | — | — | — |
| Adjusted revenue | $ 275,027 | $ 41,820 | $ — | $ 316,847 |
| | | | | |
| Income (loss) from operations | $ 31,392 | $ (9,115) | $ (21,676) | $ 601 |
| Add: | | | | |
| Deferred revenue fair value adjustment (1) | — | — | — | — |
| Depreciation and amortization | 24,535 | 9,776 | — | 34,311 |
| Non-cash compensation expense (4) | 10,682 | 2,448 | 4,168 | 17,298 |
| Restructuring charges and transaction costs (5) | 1,432 | (98) | 361 | 1,695 |
| Severance expense (6) | 4,501 | 6,302 | 679 | 11,482 |
| Litigation, regulatory and other governance related expenses (7) | — | 629 | (25) | 604 |
| Non-income tax expense adjustment (9) | (26) | — | — | (26) |
| Loss attributable to non-controlling interest (13) | 1,277 | — | — | 1,277 |
| Adjusted EBITDA | $ 73,793 | $ 9,942 | $ (16,493) | $ 67,242 |

| | Three months ended September 30, 2022 | | | |
|---|---|---|---|---|
| | Envestnet Wealth Solutions | Envestnet Data & Analytics | Nonsegment | Total |
| | (in thousands) | | | |
| Revenue | $ 257,335 | $ 49,360 | $ — | $ 306,695 |
| Deferred revenue fair value adjustment (1) | 54 | — | — | 54 |
| Adjusted revenue | $ 257,389 | $ 49,360 | $ — | $ 306,749 |
| | | | | |
| Income (loss) from operations | $ 20,607 | $ 74 | $ (21,727) | $ (1,046) |
| Add: | | | | |
| Deferred revenue fair value adjustment (1) | 54 | — | — | 54 |
| Depreciation and amortization | 24,637 | 8,771 | — | 33,408 |
| Non-cash compensation expense (4) | 11,235 | 2,991 | 3,039 | 17,265 |
| Restructuring charges and transaction costs (5) | 928 | 1,264 | 1,703 | 3,895 |
| Severance expense (6) | 686 | 281 | 158 | 1,125 |
| Litigation, regulatory and other governance related expenses (7) | — | (2,050) | — | (2,050) |
| Non-income tax expense adjustment (9) | (343) | 18 | — | (325) |
| Loss attributable to non-controlling interest (13) | 820 | — | — | 820 |
| Other | 352 | — | — | 352 |
| Adjusted EBITDA | $ 58,976 | $ 11,349 | $ (16,827) | $ 53,498 |

| | Nine Months Ended September 30, 2023 | | | |
|---|---|---|---|---|
| | Envestnet Wealth Solutions | Envestnet Data & Analytics | Nonsegment | Total |
| | (in thousands) | | | |
| Revenue | $ 803,268 | $ 124,720 | $ — | $ 927,988 |
| Deferred revenue fair value adjustment [1] | 69 | — | — | 69 |
| Adjusted revenue | $ 803,337 | $ 124,720 | $ — | $ 928,057 |
| | | | | |
| Income (loss) from operations | $ 78,254 | $ (27,888) | $ (76,134) | $ (25,768) |
| Add (deduct): | | | | |
| Deferred revenue fair value adjustment [1] | 69 | — | — | 69 |
| Depreciation and amortization | 73,183 | 27,875 | — | 101,058 |
| Non-cash compensation expense [4] | 33,967 | 7,837 | 16,337 | 58,141 |
| Restructuring charges and transaction costs [5] | 7,984 | 215 | 4,167 | 12,366 |
| Severance expense [6] | 9,931 | 11,849 | 4,124 | 25,904 |
| Litigation, regulatory and other governance related expenses [7] | — | 4,163 | 1,660 | 5,823 |
| Non-income tax expense adjustment [9] | (153) | (71) | — | (224) |
| Loss attributable to non-controlling interest [13] | 3,082 | — | — | 3,082 |
| Adjusted EBITDA | $ 206,317 | $ 23,980 | $ (49,846) | $ 180,451 |

| | Nine months ended September 30, 2022 | | | |
|---|---|---|---|---|
| | Envestnet Wealth Solutions | Envestnet Data & Analytics | Nonsegment | Total |
| | (in thousands) | | | |
| Revenue | $ 802,903 | $ 144,007 | $ — | $ 946,910 |
| Deferred revenue fair value adjustment [1] | 162 | — | — | 162 |
| Adjusted revenue | $ 803,065 | $ 144,007 | $ — | $ 947,072 |
| | | | | |
| Income (loss) from operations | $ 49,844 | $ (9,218) | $ (80,116) | $ (39,490) |
| Add: | | | | |
| Deferred revenue fair value adjustment [1] | 162 | — | — | 162 |
| Depreciation and amortization | 71,674 | 25,534 | — | 97,208 |
| Non-cash compensation expense [4] | 35,889 | 8,378 | 18,316 | 62,583 |
| Restructuring charges and transaction costs [5] | 18,109 | 2,014 | 7,144 | 27,267 |
| Severance expense [6] | 4,909 | 1,492 | 4,978 | 11,379 |
| Litigation, regulatory and other governance related expenses [7] | — | 5,333 | — | 5,333 |
| Non-income tax expense adjustment [9] | (52) | (60) | — | (112) |
| Loss attributable to non-controlling interest [13] | 1,637 | — | — | 1,637 |
| Other | 352 | 2 | — | 354 |
| Adjusted EBITDA | $ 182,524 | $ 33,475 | $ (49,678) | $ 166,321 |

***Footnotes to GAAP to Non-GAAP Reconciliations***

(1) Deferred revenue fair value adjustment represents the effect of purchase accounting on the fair value of acquired deferred revenue in accordance with ASC 606.
(2) For the three months ended September 30, 2023 and 2022, the effective tax rate computed in accordance with GAAP equaled 234.2% and (35.5)%, respectively. For the nine months ended September 30, 2023 and 2022, the effective tax rate computed in accordance with GAAP equaled (33.8)% and 3.1%, respectively.
(3) As of December 31, 2022, we had net operating loss carryforwards of approximately $69.0 million and $221.0 million for federal and state income tax purposes, respectively, available to reduce future income subject to income taxes. As a result, the amount of actual cash taxes we pay for federal, state and foreign income taxes differs significantly from both the amount calculated in accordance with GAAP using the effective income tax rate and from the income tax effect amount calculated using the normalized effective tax rate.
(4) Non-cash compensation expense represents expense related to stock-based awards made to employees and directors. We exclude stock-based compensation because the Company does not view it as reflective of our core operating performance as it is a non-cash expense.
(5) Restructuring charges and transaction costs represent third-party costs incurred related to significant, distinct enterprise-wide strategic initiatives such as the closure of certain offices in the United States, acquisition and transaction related expenditures and system integration costs related to implementation of a new Enterprise Resource Planning System. These third-party costs are infrequent and outside the ordinary course of our continuing operations. We exclude these costs to facilitate a more meaningful evaluation of our current operating performance and comparisons to our past operating performance.
(6) Severance expense represents severance and related costs associated with certain strategic initiatives that have reshaped our workforce such as an organizational realignment in the fourth quarter of 2022, post-acquisition integration activity and a reduction in force initiative in 2023. These are not reflective of future ongoing operations and affect comparability of the Company’s operational results across reporting periods.
(7) Litigation, regulatory and other governance related expenses represent certain third-party non-recurring litigation fees primarily related to litigation matters discussed in Note 19—Commitments and Contingencies as well as governance related expenses associated with activist shareholder activity. The litigation costs relate to two matters over a three-year time period and are not reoccurring expenditures.
(8) Foreign currency represents gains and losses from foreign currency denominated transactions and the remeasurement of foreign currency denominated balance sheet accounts. These adjustments can vary significantly from period to period and are not indicative of our core operating performance.
(9) Non-income tax expense adjustments relate to the remediation of historical sales and use tax issues and are not indicative of our core operating performance.
(10) Fair market value adjustment to investment in private company represents non-recurring unrealized gains and losses related to the Company’s investments. These adjustments are infrequent and outside the ordinary course of our continuing operations.
(11) Dilution gain on equity method investee share issuance represents gains and losses related to the Company’s equity method share issuances. These dilution gains are infrequent and can vary significantly from period to period and are outside the ordinary course of our continuing operations.
(12) Loss allocations from equity method investments represents gains and losses from our various equity method investments. These investments are not part of our core business and the ventures associated with these investments generally are start-up or early-stage businesses where we have limited influence over their operational and financial policies. The results of operations for each of these investments can vary significantly from period to period and do not represent the Company’s ongoing operations.
(13) Loss attributable to non-controlling interest represents the loss attributable to the Company’s minority economic interest in a private company excluding the impact of non-cash or non-recurring items included within other line items. Although the Company consolidates its minority interest in a private company as a result of its ability to control this private company interest through majority representation on the board, the Company has excluded loss attributable to non-controlling interest as it owns a minority economic interest in the private company. This private company is a start-up business and the results of its operations vary significantly from period to period and are not representative of the Company’s financial performance.
(14) Non-cash interest expense represents third-party costs incurred in securing debt and are amortized over the term of the debt. We exclude non-cash interest expense because the Company does not view this expense as reflective of our core operating performance as it is a non-cash expense.
(15) For purposes of computing adjusted net income and adjusted net income per share, the Company always assumes the convertible notes to be fully converted for all periods presented. Therefore, cash interest for convertible notes is added to adjusted net income in accordance with the if-converted method.
(16) Amortization of acquired intangibles represents non-cash amortization expense from intangible assets acquired through acquisitions. The fair value of these acquired intangible assets are estimates and the Company does not view it as reflective of our core operating performance as it is a non-cash expense.
(17) Income tax effect represents the tax effect of Non-GAAP adjustments as described above and is calculated using an estimated normalized tax rate of 25.5% for both the three and nine months ended September 30, 2023 and 2022.

**Liquidity and Capital Resources**

As of September 30, 2023, we had total cash and cash equivalents of $43.2 million compared to $162.2 million as of December 31, 2022. As of September 30, 2023, we had $500.0 million available to borrow under the Revolving Credit Facility.

We believe our existing cash and cash equivalents and cash generated in the ongoing operations of our businesswill be sufficient to fund our current operations, including capital expenditure needs and debt service obligations, over the next twelve months and beyond. If the cash generated in the ongoing operations of our business is insufficient to fund these requirements, we may be required to further borrow under our Revolving Credit Facility or incur additional debt to fund our ongoing operations or to fund potential acquisitions or other strategic activities.

We will continue to actively manage our cash balances by making decisions regarding the amounts, timing and manner in which cash is generated and used in order to ensure we are able to meet our cash, capital and liquidity requirements and maintain operations for both the short and long term.

***Cash Flows***

The following table presents a summary of our cash flows:

| | Nine Months Ended September 30, 2023 | Nine Months Ended September 30, 2022 |
|---|---|---|
| | (in thousands) | |
| Net cash provided by operating activities | $ 79,277 | $ 86,235 |
| Net cash used in investing activities | (125,167) | (226,755) |
| Net cash used in financing activities | (76,969) | (44,450) |
| Effect of exchange rate on changes on cash | 3,897 | (3,128) |
| Net change in cash, cash equivalents and restricted cash | $ (118,962) | $ (188,098) |

***Operating Activities***

Net cash provided by operating activities decreased $7.0 million for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to a decrease of $13.9 million in cash provided by our business operations, partially offset by an increase of $6.9 million in cash provided due to timing of payments within our working capital accounts. Our working capital is affected by the timing of payments related to several items, including but not limited to, employee incentives, income tax payments and cash collections from our clients. For the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022, the increase of $6.9 million in cash provided within our working capital accounts is primarily related to a $19.6 million decrease in accrued compensation and related taxes, which includes accrued incentive compensation, from December 31, 2021 to December 31, 2022 as a result of lower operating performance in 2022 compared to 2021, partially offset by an $8.9 million increase in fees receivable, net from December 31, 2022 to September 30, 2023 as a result of timing of cash collections from our clients, a $4.8 million increase in prepaid technology from December 31, 2021 to September 30, 2022 primarily a result of timing of payments for technology and other miscellaneous cash payment timing differences.

***Investing Activities***

Net cash used in investing activities decreased $101.6 million for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to cash used related to acquisition of businesses of $104.2 million during the nine months ended September 30, 2022, a decrease in cash related to investing in private companies of $12.2 million, a decrease in cash related to acquiring technology of $7.0 million and an issuance of note receivable to equity method investees of $6.4 million during the nine months ended September 30, 2022. These decreases were partially offset by an increase in cash used related to an issuance of loan receivable to a private company of $20.0 million during the nine months ended September 30, 2023, an increase in cash used to purchase property and equipment of $5.2 million and an increase in capitalization of internally developed software of $3.4 million.

***Financing Activities***

Net cash used in financing activities increased $32.5 million for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to settling the remaining aggregate principal amount of $45.0

million on the Convertible Notes due 2023 during the nine months ended September 30, 2023, partially offset by a decrease in payments on finance lease obligations of $9.0 million and a decrease in taxes paid on the vesting of stock-based compensation of $3.6 million.

**Commitments and Off-Balance Sheet Arrangements**

***Purchase Obligations and Indemnifications***

See “Part I, Item 1, Note 19—Commitments and Contingencies, Purchase Obligations and Indemnifications.”

***Acquisition of Redi2 Technologies***

See “Part I, Item 1, Note 3— Acquisitions” for details related to this transaction.

***Legal Proceedings***

See “Part I, Item 1, Note 19—Commitments and Contingencies, Legal Proceedings” for legal proceedings details.

**Critical Accounting Policies and Estimates**

The preparation of financial statements and related disclosures in conformity with GAAP requires us to make judgments, assumptions, and estimates that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. See "Note 2—Summary of Significant Accounting Policies" to the consolidated financial statements in our 2022 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 2022 Form 10-K include, but are not limited to, the discussion of estimates used for recognition of revenue, impairment of goodwill and acquired intangible assets 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.

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

There have been no material changes to our market, foreign currency or interest rate risks as discussed in Part II, Item 7A of our 2022 Form 10-K.

**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 September 30, 2023. 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 their evaluation of our disclosure controls and procedures as of September 30, 2023, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective.

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

There were no changes to our internal control over financial reporting during the nine months ended September 30, 2023, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings

The information in Part I, Note 19—Commitments and Contingencies, Legal Proceedings is incorporated herein by reference.

### Item 1A. Risk Factors

Investment in our securities involves risk. An investor or potential investor should consider the risks summarized below and under the caption “Risk Factors” in Part I, Item 1A of our 2022 Form 10-K when making investment decisions regarding our securities. The risk factors that were disclosed in our 2022 Form 10-K have not materially changed since the date our 2022 Form 10-K was filed.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

**(c) Issuer Purchases of Equity Securities**

On February 25, 2016, we announced that our Board had authorized a share repurchase program under which we may repurchase up to 2.0 million shares of our common stock. There were no purchases of equity securities made under the share repurchase program in the nine months ended September 30, 2023. As of September 30, 2023, there were 0.3 million shares that may yet be repurchased under the program.

The timing and volume of share repurchases will be determined by our management based on ongoing assessments of the capital needs of the business, the market price of our common stock and general market conditions. No time limit has been set for the completion of the repurchase program, and the program may be suspended or discontinued at any time. The repurchase program authorizes the Company to purchase its common stock from time to time in the open market (including pursuant to a “Rule 10b5-1 plan”), in block transactions, in privately negotiated transactions, through accelerated stock repurchase programs, through option or other forward transactions or otherwise, all in compliance with applicable laws and other restrictions.

### 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.

## INDEX TO EXHIBITS

| Exhibit No. | Description |
|---|---|
| 10.1 | Executive Agreement, dated September 23, 2023, by and between Josh Warren and Envestnet, Inc. |
| 10.2 | Severance Agreement, dated September 23, 2023, by and between Peter H. D'Arrigo and Envestnet, Inc. |
| 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 | 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 | 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 - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document * |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document * |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document * |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document * |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document * |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) |

* The following materials are formatted in Inline XBRL (Extensible Business Reporting Language): (i) the cover page; (ii) the Condensed Consolidated Balance Sheets as of September 30, 2023 and December 31, 2022; (iii) the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2023 and 2022; (iv) the Condensed Consolidated Statement of Comprehensive Income (Loss) for the three and nine months ended September 30, 2023 and 2022; (v) the Condensed Consolidated Statements of Stockholders' Equity for the three and nine months ended September 30, 2023 and 2022; (vi) the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2023 and 2022; (vii) Notes to Condensed Consolidated Financial Statements tagged as blocks of text.

**GLOSSARY OF TERMS**

The following abbreviations or acronyms used in this Form 10-Q are defined below:

| **Abbreviations or Acronyms** | **Definition** |
|---|---|
| 2010 Plan | 2010 Long-Term Incentive Plan |
| 2019 Equity Plan | 2019 Acquisition Equity Incentive Plan |
| 2022 Form 10-K | Form 10-K for the year ended December 31, 2022 |
| AETR | Annual effective tax rate. |
| ASC | Accounting Standards Codification™ |
| ASC 310 - Receivables | Accounting Standards Codification Topic 310, Receivables |
| ASC 606 | Accounting Standards Codification Topic 606, Revenue from Contracts with Customers |
| ASC 740-270 | Accounting Standards Codification Topic 740, Income Taxes—Interim Reporting |
| ASU | Accounting Standards Update |
| ASU 2021-08 | ASU Business Combinations (Topic 805): Accounting for Contract Assets and Contract |
| Board | Board of Directors |
| Convertible Notes due 2023 | $345.0 million of aggregate principal amount of convertible notes issued in May 2018 with an interest rate of 1.75% per year that mature on June 1, 2023. During November 2022, the Company repurchased $300.0 million of the $345.0 million convertible notes resulting in a remaining aggregate principal amount of $45.0 million as of December 31, 2022. |
| Convertible Notes due 2025 | $517.5 million of aggregate principal amount of convertible notes issued in August 2020 with an interest rate of 0.75% per year that mature on August 15, 2025. During November 2022, the Company repurchased $200.0 million of the $517.5 million convertible notes resulting in a remaining aggregate principal amount of $317.5 million as of December 31, 2022. |
| Convertible Notes due 2027 | $575.0 million aggregate principal amount of convertible notes issued in November 2022 with an interest rate of 2.625% per year that mature on December 1, 2027 |
| Convertible Promissory Note | $20.0 million convertible promissory note issued in January 2023 with a customer of the Company's business, a privately held company |
| ETR | Effective tax rate |
| Exchange Act | Securities Exchange Act of 1934, as amended |
| FASB | Financial Accounting Standards Board |
| FinancialApps | FinancialApps, LLC |
| FinTech | Financial Technology |
| GAAP | United States Generally Accepted Accounting Principles |
| IRC Section 174 | Internal Revenue Code of 1986, Section 174: Amortization of Research and Experimental Expenditures |
| Convertible Notes | Collectively the Convertible Notes due 2023, Convertible Notes due 2025 and Convertible Notes due 2027 |
| PSU | Performance-based restricted stock unit |
| Quarterly Report | Form 10-Q for the quarter ended September 30, 2023 |
| R&D | Research and Development. |
| Redi2 | Redi2 Technologies Inc. |
| Redi2 acquisition | Stock purchase agreement between Envestnet and Redi2 Technologies, dated as of June 24, 2022 |
| Revolving Credit Facility | Revolving credit facility of $500.0 million pursuant to the Third Amended and Restated Credit Agreement |
| RIAs | Registered investment advisors |
| RSU | Restricted stock unit |
| SEC | Securities and Exchange Commission |
| SOFR | Secured Overnight Financing Rate |
| TCS | Tata Consultancy Services |
| U.S. | United States |
| Yodlee | Yodlee, Inc. |

## 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 November 9, 2023.

**ENVESTNET, INC.**

By: */s/ William C. Crager*
**William C. Crager**
***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**
***Senior Vice President, Financial Reporting***
***Principal Accounting Officer***

**Exhibit 31.1**

**CHIEF EXECUTIVE OFFICER CERTIFICATION**

I, William C. Crager, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended September 30, 2023, of Envestnet, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 9, 2023

*/s/ William C. Crager*
William C. Crager
*Chief Executive Officer*
*(Principal Executive Officer)*

**Exhibit 31.2**

**CHIEF FINANCIAL OFFICER CERTIFICATION**

I, Peter H. D’Arrigo, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended September 30, 2023, of Envestnet, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 9, 2023

*/s/ Peter H. D’Arrigo*
Peter H. D’Arrigo
*Chief Financial Officer*
*(Principal Financial Officer)*

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Envestnet, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, William Crager, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

*/s/ William C. Crager*

By: William C. Crager
Chief Executive Officer
*(Principal Executive Officer)*

Dated: November 9, 2023

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Envestnet, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Peter D’Arrigo, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

*/s/ Peter H. D’Arrigo*

By: Peter H. D’Arrigo
Chief Financial Officer
(Principal Financial Officer)

Dated: November 9, 2023

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.