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 June 30, 2018

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

Commission file number 001-34835

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

Delaware (State or other jurisdiction of incorporation or organization)	**20-1409613** (I.R.S Employer Identification No.)
35 East Wacker Drive, Suite 2400, Chicago, IL (Address of principal executive offices)	**60601** (Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

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

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of August 1, 2018, 45,384,004 shares of the common stock with a par value of $0.005 per share were outstanding.

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

	June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 134,032	$ 60,115
Fees receivable, net	64,164	51,522
Prepaid expenses and other current assets	22,721	19,470
Total current assets	220,917	131,107
Property and equipment, net	40,397	35,909
Internally developed software, net	29,257	22,174
Intangible assets, net	313,743	222,731
Goodwill	526,955	432,955
Other non-current assets	23,907	17,176
Total assets	$ 1,155,176	$ 862,052
Liabilities and Equity		
Current liabilities:		
Accrued expenses and other liabilities	$ 109,537	$ 105,897
Accounts payable	21,133	11,097
Contingent consideration	707	2,115
Deferred revenue	25,739	21,246
Total current liabilities	157,116	140,355
Convertible Notes due 2019	162,299	158,990
Convertible Notes due 2023	289,562	—
Revolving credit facility	—	81,168
Contingent consideration	—	666
Deferred revenue	7,929	12,047
Deferred rent and lease incentive	17,334	15,185
Deferred tax liabilities, net	2,154	969
Other non-current liabilities	16,744	15,102
Total liabilities	653,138	424,482
Commitments and contingencies		
Redeemable units in ERS	900	900
Equity:		
Stockholders’ equity:		
Preferred stock, par value $0.005, 50,000,000 shares authorized	—	—
Common stock, par value $0.005, 500,000,000 shares authorized; 58,382,026 and 57,450,056 shares issued as of June 30, 2018 and December 31, 2017, respectively; 45,375,594 and 44,700,641 shares outstanding as of June 30, 2018 and December 31, 2017, respectively	291	287
Additional paid-in capital	624,378	556,257
Accumulated deficit	(62,059)	(73,854)
Treasury stock at cost, 13,006,432 and 12,749,415 shares as of June 30, 2018 and December 31, 2017, respectively	(61,437)	(47,042)
Accumulated other comprehensive income (loss)	(739)	624
Total stockholders’ equity	500,434	436,272
Non-controlling interest	704	398
Total equity	501,138	436,670
Total liabilities and equity	$ 1,155,176	$ 862,052

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues:				
Asset-based	$ 118,111	$ 98,959	$ 239,264	$ 193,121
Subscription-based	71,779	59,802	141,474	117,712
Total recurring revenues	189,890	158,761	380,738	310,833
Professional services and other revenues	11,226	8,656	18,389	14,370
Total revenues	201,116	167,417	399,127	325,203
Operating expenses:				
Cost of revenues	67,627	55,735	130,561	104,961
Compensation and benefits	80,210	64,996	163,750	130,528
General and administration	34,089	28,478	66,818	59,025
Depreciation and amortization	19,185	15,465	38,731	31,300
Total operating expenses	201,111	164,674	399,860	325,814
Income (loss) from operations	5	2,743	(733)	(611)
Other expense, net	(5,430)	(4,369)	(10,684)	(9,852)
Loss before income tax provision (benefit)	(5,425)	(1,626)	(11,417)	(10,463)
Income tax provision (benefit)	566	4,844	(13,428)	9,142
Net income (loss)	(5,991)	(6,470)	2,011	(19,605)
Add: Net loss attributable to non-controlling interest	465	—	567	—
Net income (loss) attributable to Envestnet, Inc.	$ (5,526)	$ (6,470)	$ 2,578	$ (19,605)
Net income (loss) per share attributable to Envestnet, Inc.:				
Basic	$ (0.12)	$ (0.15)	$ 0.06	$ (0.45)
Diluted	$ (0.12)	$ (0.15)	$ 0.05	$ (0.45)
Weighted average common shares outstanding:				
Basic	45,247,331	43,855,479	44,963,735	43,513,074
Diluted	45,247,331	43,855,479	47,156,205	43,513,074

See accompanying notes to unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income (loss) attributable to Envestnet, Inc.	$ (5,526)	$ (6,470)	$ 2,578	$ (19,605)
Other comprehensive income (loss), net of taxes:				
Foreign currency translation gain (loss)	(1,036)	76	(1,363)	809
Comprehensive income (loss) attributable to Envestnet, Inc.	$ (6,562)	$ (6,394)	$ 1,215	$ (18,796)

See accompanying notes to unaudited Condensed Consolidated Financial Statements.

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

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Non-controlling Interest	Total Equity
	Shares	Amount	Common Shares	Amount					
Balance, December 31, 2017	57,450,056	$ 287	(12,749,415)	$ (47,042)	$ 556,257	$ 624	$ (73,854)	$ 398	$ 436,670
Adoption of ASC 606 (See Note 4)	—	—	—	—	—	—	9,217	—	9,217
Exercise of stock options	175,023	1	—	—	2,539	—	—	—	2,540
Issuance of common stock - vesting of restricted stock units	756,947	3	—	—	—	—	—	—	3
Stock-based compensation expense	—	—	—	—	18,971	—	—	—	18,971
Purchase of treasury stock for stock-based tax withholdings	—	—	(257,017)	(14,395)	—	—	—	—	(14,395)
Issuance of non-controlling units in private company	—	—	—	—	—	—	—	873	873
Issuance of Convertible Notes due 2023, net of offering costs	—	—	—	—	46,611	—	—	—	46,611
Foreign currency translation loss	—	—	—	—	—	(1,363)	—	—	(1,363)
Net income (loss)	—	—	—	—	—	—	2,578	(567)	2,011
Balance, June 30, 2018	58,382,026	$ 291	(13,006,432)	$ (61,437)	$ 624,378	$ (739)	$ (62,059)	$ 704	$ 501,138

See accompanying notes to unaudited Condensed Consolidated Financial Statements

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

	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
OPERATING ACTIVITIES:		
Net income (loss)	$ 2,011	$ (19,605)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	38,731	31,300
Deferred rent and lease incentive amortization	1,069	583
Provision for doubtful accounts	924	341
Deferred income taxes	(17,093)	6,524
Stock-based compensation expense	18,971	15,403
Non-cash interest expense	5,630	4,853
Accretion on contingent consideration and purchase liability	196	304
Payments of contingent consideration	—	(357)
Loss allocation from equity method investment	811	702
Loss on disposal of fixed assets	10	69
Changes in operating assets and liabilities, net of acquisitions:		
Fees receivable, net	(8,204)	(5,639)
Prepaid expenses and other current assets	(3,426)	(2,681)
Other non-current assets	(2,450)	(514)
Accrued expenses and other liabilities	(5,448)	(752)
Accounts payable	4,166	(184)
Deferred revenue	3,478	1,818
Other non-current liabilities	1,578	3,022
Net cash provided by operating activities	40,954	35,187
INVESTING ACTIVITIES:		
Purchase of property and equipment	(9,569)	(9,181)
Capitalization of internally developed software	(10,622)	(5,651)
Acquisition of businesses	(188,345)	—
Net cash used in investing activities	(208,536)	(14,832)
FINANCING ACTIVITIES:		
Proceeds from issuance of Convertible Notes due 2023	345,000	—
Convertible Notes due 2023 issuance costs	(9,488)	—
Proceeds from borrowings on revolving credit facility	195,000	25,000
Payments on revolving credit facility	(276,168)	(25,000)
Payments of contingent consideration	(2,193)	(1,929)
Payments of definite consideration	—	(445)
Payments of purchase consideration liabilities	—	(235)
Payment of Term Notes	—	(35,862)
Proceeds from exercise of stock options	2,540	2,617
Purchase of treasury stock for stock-based tax withholdings	(14,395)	(9,650)
Issuance of restricted stock units	3	4
Net cash provided by (used in) financing activities	240,299	(45,500)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(572)	283
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	72,145	(24,862)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF PERIOD	62,115	54,592
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, END OF PERIOD (See Note 2)	$ 134,260	$ 29,730
Supplemental disclosure of cash flow information - net cash paid during the period for income taxes	$ 2,225	$ 275
Supplemental disclosure of cash flow information - cash paid during the period for interest	4,271	3,960
Supplemental disclosure of non-cash operating, investing and financing activities:		
Leasehold improvements funded by lease incentive	1,080	281
Purchase liabilities included in accrued expenses and other liabilities	1,422	818
Purchase of fixed assets included in accounts payable and accrued expenses and other liabilities	1,188	260

See accompanying notes to unaudited Condensed Consolidated Financial Statements.

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

1. Organization and Description of Business

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

The Company offers these solutions principally through the following product and services suites:

- ***Envestnet | Enterprise*** provides an end-to-end open architecture wealth management platform, through which advisors can construct portfolios for clients. It begins with aggregated household data which then leads to a financial plan, asset allocation, investment strategy, portfolio management, rebalancing and performance reporting. Advisors have access to over 18,400 investment products. Envestnet | Enterprise also sells data aggregation and reporting, data analytics, and digital advice capabilities to customers.

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

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

- ***Envestnet | PMC® or Portfolio Management Consultants (“PMC”)*** provides research, due diligence and consulting services to assist advisors in creating investment solutions for their clients. These solutions include nearly 4,900 vetted third party managed account products, multi-manager portfolios, fund strategist portfolios, as well as over 1,700 proprietary products, such as quantitative portfolios and fund strategist portfolios. PMC also offers an overlay service, which includes patented portfolio overlay and tax optimization services.

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

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

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company as of June 30, 2018 and for the three and six months ended June 30, 2018 and 2017 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, 2017 and reflect all normal recurring adjustments which are, in the opinion of management, necessary to present fairly the Company’s financial position as of June 30, 2018 and the 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 Envestnet and its subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. Accounts for the Envestnet 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 | Yodlee segment are recorded and measured in foreign currencies. The assets and liabilities for those subsidiaries with a foreign currency functional currency are translated at exchange rates in effect at the balance sheet date, and revenues 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 results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the operating results to be expected for other interim periods or for the full fiscal year.

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

The unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on February 28, 2018.

The preparation of these unaudited condensed consolidated financial statements requires management to make estimates and assumptions related to the reporting of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these unaudited condensed consolidated financial statements in conformity with GAAP. Areas requiring the use of management estimates relate to estimating uncollectible receivables, revenue recognition, the determination of the period of benefit for deferred sales incentive commissions, valuations and assumptions used for impairment testing of goodwill, intangible and other long-lived assets, fair value of restricted stock and stock options issued, fair value of contingent consideration, realization of deferred tax assets, uncertain tax positions, sales tax liabilities, fair value of the liability portion of the convertible debt and assumptions used to allocate purchase prices in business combinations. Actual results could differ materially from these estimates under different assumptions or conditions.

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

	June 30,	
	2018	2017
Cash and cash equivalents	$ 134,032	$ 27,730
Restricted cash included in prepaid expenses and other current assets	228	2,000
Total cash, cash equivalents and restricted cash	$ 134,260	$ 29,730

Recent Accounting Pronouncements - In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers," which amends the existing accounting standards for revenue recognition. This standard is effective for financial statements issued by public companies for annual and interim periods beginning after December 15, 2017. These changes became effective for the Company's fiscal year beginning January 1, 2018 and have been reflected in these condensed consolidated financial statements (See "Note 4 – Revenue").

In February 2016, the FASB issued ASU 2016-02, "Leases." This update amends the requirements for assets and liabilities recognized for all leases longer than twelve months. Lessees will be required to recognize a lease liability measured on a discounted basis, which is the lessee's obligation to make lease payments arising from the lease, and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. This standard will be effective for financial statements issued by public companies for the annual and interim periods beginning after December 15, 2018 and will be applied using a modified retrospective approach with optional practical expedients. Early adoption of the standard is permitted. The Company will adopt the new standard on its effective date of January 1, 2019 and expects to elect certain available transitional practical expedients. Based on current analysis, the adoption of the standard may have a material impact on our consolidated balance sheets and related disclosures while not significantly impacting financial results. We continue to evaluate the accounting, transition, and disclosure requirements of this standard.

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

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230) – Restricted Cash," which amends ASC 230 to provide clarifying guidance on the classification and presentation of restricted cash in the statement of cash flows. Additional disclosure is required to reconcile between the statement of financial position and the statement of cash flows when the statement of financial position includes more than one line item for cash, cash equivalents, restricted cash, and restricted cash equivalents. This standard is effective for financial statements issued by public companies for annual and interim periods beginning after December 15, 2017. These changes became effective for the Company's fiscal year beginning January 1, 2018 and included $228 and $2,000 of restricted cash in the total of cash, cash equivalents and restricted cash in the condensed consolidated statements of cash flows for the six months ended June 30, 2018 and 2017, respectively. A reconciliation of restricted cash for each period is included within this footnote.

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

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

In June 2018, the FASB issued ASU 2018-07, "Compensation – Stock Compensation (Topic 718):Improvements to Nonemployee Share-Based Payment Accounting." This update clarifies the accounting for share-based payment transactions for acquiring goods and services from nonemployees. Specifically, the update aligns the accounting for payments to nonemployees to match the accounting for payments to employees, no longer accounting for these transactions differently. This standard is effective for financial statements issued by public companies for annual and interim periods beginning after December 15, 2018. Early adoption of the standard is permitted. The Company is currently evaluating the potential impact of this guidance on our consolidated financial statements.

3. Business Acquisitions

FolioDynamix

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

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

The Company acquired FolioDynamix to add complementary trading tools as well as commission and brokerage support to Envestnet's existing suite of offerings. Envestnet expects to integrate the technology and operations of FolioDynamix into the Company's wealth management channel, enabling the Company to further leverage its operating scale and data analytics capabilities.

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

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

The estimated consideration transferred in the acquisition was as follows:

	Preliminary Estimate	Measurement Period Adjustments	Revised Estimate
Cash consideration	$ 187,580	$ 12,297	$ 199,877
Purchase consideration liability	12,297	(12,297)	—
Working capital and other adjustments	(3,893)	(2,500)	(6,393)
Total	$ 195,984	$ (2,500)	$ 193,484

The estimated fair values of working capital balances, property and equipment, deferred revenue, deferred income taxes, unrecognized tax benefits, identifiable intangible assets and goodwill are provisional and are based on the information that was available as of the acquisition date. The estimated fair values of these provisional items are based on certain valuation and other studies and are in progress and not yet at the point where there is sufficient information for a definitive measurement. The Company believes the preliminary information provides a reasonable basis for estimating the fair values of these amounts, but is waiting for additional information necessary to finalize those fair values. Therefore, provisional measurements of fair values reflected are subject to change and such changes could be significant. The Company expects to finalize the valuation of tangible assets and liabilities, identifiable intangible assets and goodwill, and complete the acquisition accounting as soon as practicable but no later than January 2, 2019.

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

	Preliminary Estimate	Measurement Period Adjustments	Revised Estimate
Cash and cash equivalents	$ 4,876	$ —	$ 4,876
Accounts receivable	4,962	—	4,962
Prepaid expenses and other current assets	1,600	—	1,600
Property and equipment, net	927	—	927
Other non-current assets	441	—	441
Identifiable intangible assets	117,700	—	117,700
Goodwill	97,248	(2,624)	94,624
Total assets acquired	227,754	(2,624)	225,130
Accounts payable	(5,358)	—	(5,358)
Accrued expenses	(7,173)	—	(7,173)
Deferred tax liability	(18,245)	—	(18,245)
Deferred revenue	(930)	124	(806)
Other non-current liabilities	(64)	—	(64)
Total liabilities assumed	(31,770)	124	(31,646)
Total net assets acquired	$ 195,984	$ (2,500)	$ 193,484

The goodwill arising from the acquisition represents the expected synergistic benefits of the transaction, primarily related to lower future operating expenses and the knowledge and experience of the workforce in place. The goodwill is not deductible for income tax purposes.

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

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

	Preliminary Estimate	Measurement Period Adjustments	Revised Estimate	Useful Life in Years	Amortization Method
Customer list	$ 95,000	$ 500	$ 95,500	12	Accelerated
Proprietary technology	18,000	(500)	17,500	5	Straight-line
Trade names and domains	4,700	—	4,700	6	Straight-line
Total	$ 117,700	$ —	$ 117,700		

The results of FolioDynamix's operations are included in the condensed consolidated statements of operations beginning January 2, 2018. FolioDynamix's revenues for the three and six month periods ended June 30, 2018 totaled $17,346 and $34,800, respectively. FolioDynamix's pre-tax loss for the three and six month periods ended June 30, 2018 totaled $3,255 and $7,981, respectively. The pre-tax loss includes estimated acquired intangible asset amortization of $4,390 and $8,701 for the three and six month periods ended June 30, 2018.

For the three and six month periods ended June 30, 2018, acquisition related costs for FolioDynamix totaled $167 and $594, respectively, and are included in general and administration expenses. The Company will incur additional acquisition related costs during 2018.

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

The following pro forma financial information presents the combined results of operations of Envestnet and FolioDynamix for the three and six month periods ended June 30, 2017. The pro forma financial information presents the results as if the acquisition had occurred as of the beginning of 2017.

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

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

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Revenues	$ 177,297	$ 344,514
Net loss	(12,624)	(31,873)
Net loss per share:		
Basic	(0.29)	(0.73)
Diluted	(0.29)	(0.73)

4. Revenue

On January 1, 2018, the Company adopted ASU 2014-09 and all subsequent ASUs that modified Topic 606 ("ASC 606" or "new revenue standard") using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. The Company recognized the cumulative effect of the initial application of the new revenue standard as an adjustment to the opening balance of accumulated deficit. The comparative information has not been restated and will continue to be reported under the accounting standards in effect for those periods. The Company does not expect the adoption of the new revenue standard to have a material impact to the results of operations on an ongoing basis.

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

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

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

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

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

	Three Months Ended June 30, 2018		
	As Reported	Without Adoption of ASC 606	Effect of Change Higher/(Lower)
Statements of Operations			
Revenues:			
Asset-based	$ 118,111	$ 121,646	$ (3,535)
Subscription-based	71,779	71,779	—
Total recurring revenues	189,890	193,425	(3,535)
Professional services and other revenues	11,226	11,385	(159)
Total revenues	201,116	204,810	(3,694)
Operating expenses:			
Cost of revenues	67,627	71,162	(3,535)
Compensation and benefits	80,210	80,530	(320)
Total operating expenses	201,111	204,966	(3,855)
Income (loss) from operations	5	(156)	161
Net loss	(5,991)	(6,152)	161
Net loss attributable to Envestnet, Inc.	(5,526)	(5,687)	161

Envestnet, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements (continued)
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	Six Months Ended June 30, 2018		
	As Reported	Without Adoption of ASC 606	Effect of Change Higher/(Lower)
Statements of Operations			
Revenues:			
Asset-based	$ 239,264	$ 246,399	$ (7,135)
Subscription-based	141,474	141,474	—
Total recurring revenues	380,738	387,873	(7,135)
Professional services and other revenues	18,389	18,585	(196)
Total revenues	399,127	406,458	(7,331)
Operating expenses:			
Cost of revenues	130,561	137,696	(7,135)
Compensation and benefits	163,750	164,197	(447)
Total operating expenses	399,860	407,442	(7,582)
Loss from operations	(733)	(984)	251
Net income	2,011	1,760	251
Net income attributable to Envestnet, Inc.	2,578	2,327	251

	At June 30, 2018		
	As Reported	Without Adoption of ASC 606	Effect of Change Higher/(Lower)
Balance Sheets			
Assets:			
Fees receivable, net	$ 64,164	$ 63,218	$ 946
Other non-current assets	23,907	18,145	5,762
Liabilities:			
Accounts payable	21,133	20,187	946
Deferred revenue, current	25,739	26,720	(981)
Deferred revenue, non-current	7,929	10,654	(2,725)
Equity:			
Accumulated deficit	(62,059)	(71,527)	9,468

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

Summary of Significant Accounting Policies

Except for the accounting policies for revenue recognition, fees receivable including unbilled receivables and deferred sales incentive compensation that were updated as a result of adopting ASC 606, there have been no changes to our significant accounting policies described in the Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on February 28, 2018, that have had a material impact on our condensed consolidated financial statements and related notes.

Revenue Recognition

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

Envestnet, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements (continued)
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Asset-based revenue (formerly assets under management or administration revenue)

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

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

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

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

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

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

Subscription-based revenue (formerly subscription and licensing revenue)

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

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

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

Certain subscription-based contracts contain multiple performance obligations (i.e. platform services performance obligation and professional services performance obligation). Fixed fees are generally recognized on a ratable basis over the quarter beginning when the subscription services are made available to the customer, as the customer simultaneously receives and consumes the benefits of the

Envestnet, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements (continued)
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subscription services. Usage-based revenue is recognized on a monthly basis as the customer receives and consumes the benefit as the Company provides the services. Subscription-based fees are recognized in both the Envestnet and Envestnet | Yodlee segments.

Professional services and other revenues

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

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

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

Arrangements with multiple performance obligations

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

Disaggregation of Revenue

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

	Three Months Ended June 30,					
	2018			2017		
	Envestnet	Envestnet | Yodlee	Consolidated	Envestnet[(1)]	Envestnet | Yodlee[(1)]	Consolidated[(1)]
Revenues:						
Asset-based	$ 118,111	$ —	$ 118,111	$ 98,959	$ —	$ 98,959
Subscription-based	33,023	38,756	71,779	25,471	34,331	59,802
Total recurring revenues	151,134	38,756	189,890	124,430	34,331	158,761
Professional services and other revenues	5,794	5,432	11,226	4,942	3,714	8,656
Total revenues	$ 156,928	$ 44,188	$ 201,116	$ 129,372	$ 38,045	$ 167,417

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

	Six Months Ended June 30,					
	2018			2017		
	Envestnet	Envestnet | Yodlee	Consolidated	Envestnet[(1)]	Envestnet | Yodlee[(1)]	Consolidated[(1)]
Revenues:						
Asset-based	$ 239,264	$ —	$ 239,264	$ 193,121	$ —	$ 193,121
Subscription-based	65,608	75,866	141,474	50,708	67,004	117,712
Total recurring revenues	304,872	75,866	380,738	243,829	67,004	310,833
Professional services and other revenues	8,044	10,345	18,389	6,861	7,509	14,370
Total revenues	$ 312,916	$ 86,211	$ 399,127	$ 250,690	$ 74,513	$ 325,203

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017[(2)]	2018	2017[(2)]
United States	$ 193,237	$ 151,621	$ 381,552	$ 293,583
International [(1)]	7,879	15,796	17,575	31,620
Total	$ 201,116	$ 167,417	$ 399,127	$ 325,203

(1) No foreign country accounted for more than 10% of total revenues.
(2) As noted above, prior period amounts have not been adjusted under the modified retrospective method.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Fidelity	16 %	16 %	16 %	16 %

Remaining Performance Obligations

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) as of June 30, 2018:

Years ending December 31:	
Remainder of 2018	$ 105,353
2019	164,482
2020	92,639
2021	53,793
2022	40,774
Thereafter	54,122
Total	$ 511,163

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

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

Contract Balances

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

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

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

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

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

	Receivables, which are included in Fees receivable, net	Unbilled receivables, which are included in Fees receivable, net	Deferred Revenue (current)	Deferred Revenue (non-current)
Opening balance as of January 1, 2018	$ 36,605	$ 13,229	$ 20,124	$ 9,267
Increase/(decrease), net	11,177	3,153	5,615	(1,338)
Ending balance as of June 30, 2018	$ 47,782	$ 16,382	$ 25,739	$ 7,929

The increase in receivables is primarily a result of timing of payments for subscription-based revenues relative to the first six months of 2018 and the acquisition of FolioDynamix.

The increase in unbilled receivables is primarily driven by revenue recognized in excess of billings related to asset-based services during the six months ended June 30, 2018.

The increase in deferred revenue is primarily the result of an increase in deferred revenue related to subscription-based services during the six months ended June 30, 2018, most of which will be recognized over the course of the next twelve months.

The amount of revenue recognized that was included in the opening deferred revenue balance was $5,737 and $13,253 for the three and six months ended June 30, 2018, respectively. The majority of this revenue consists of subscription-based revenue and professional services arrangements. The amount of revenue recognized from performance obligations satisfied in prior periods was not material.

Deferred sales incentive compensation

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

Deferred sales incentive compensation was $5,762 as of June 30, 2018. Amortization expense for the deferred sales incentive compensation was $536 and $1,018 for the three and six months ended June 30, 2018, respectively. No significant impairment loss for capitalized costs was recorded during the period.

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

Envestnet, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements (continued)
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5. Cost of Revenues

The following table summarizes cost of revenues by revenue category for the periods presented herein:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Asset-based	$ 56,748	$ 47,015	$ 114,320	$ 91,500
Subscription-based	6,213	5,142	11,439	9,756
Professional services and other	4,666	3,578	4,802	3,705
Total	$ 67,627	$ 55,735	$ 130,561	$ 104,961

6. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following:

	June 30, 2018	December 31, 2017
Prepaid technology	$ 7,293	$ 1,843
Non-income tax receivable	3,332	2,704
Prepaid outside information services	1,556	1,395
Prepaid insurance	1,355	575
Service tax receivable	1,277	1,507
Prepaid rent	856	959
Restricted cash	228	2,000
Income tax receivable	—	1,684
Other	6,824	6,803
	$ 22,721	$ 19,470

7. Property and Equipment, Net

Property and equipment, net consists of the following:

	Estimated Useful Life	June 30, 2018	December 31, 2017
Cost:			
Computer equipment and software	3 years	$ 60,525	$ 56,192
Leasehold improvements	Shorter of the lease term or useful life of the asset	25,448	23,192
Office furniture and fixtures	3-7 years	8,498	8,110
Other office equipment	3-5 years	5,075	2,052
		99,546	89,546
Less: accumulated depreciation and amortization		(59,149)	(53,637)
Property and equipment, net		$ 40,397	$ 35,909

During the three and six months ended June 30, 2018, the Company retired property and equipment that were no longer in service in the amount of $3,651 and $6,738, primarily related to fully depreciated computer equipment and software assets. Of the $3,651, $1,126 of the assets originated in the Envestnet segment and the remaining $2,525 originated in the Envestnet | Yodlee segment for the three months ended June 30, 2018. Of the $6,738, $3,337 of the assets originated in the Envestnet segment and the remaining $3,401 originated in the Envestnet | Yodlee segment for the six months ended June 30, 2018. Asset retirements during the

Envestnet, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements (continued)
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three and six months ended June 30, 2017 were not material. Losses on asset retirements were not material during the three and six months ended June 30, 2018 and 2017.

Depreciation and amortization expense was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Depreciation and amortization expense	$ 3,920	$ 3,853	$ 7,838	$ 7,944

8. Internally Developed Software, Net

Internally developed software, net consists of the following:

	Estimated Useful Life	June 30, 2018	December 31, 2017
Internally developed software	5 years	$ 56,964	$ 46,342
Less: accumulated amortization		(27,707)	(24,168)
Internally developed software, net		$ 29,257	$ 22,174

Amortization expense was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Amortization expense	$ 1,846	$ 1,241	$ 3,539	$ 2,400

9. Goodwill & Intangible Assets, Net

Changes in the carrying amount of goodwill were as follows:

	Envestnet	Envestnet | Yodlee	Total
Balance at December 31, 2017	$ 163,751	$ 269,204	$ 432,955
FolioDynamix acquisition	94,624	—	94,624
Foreign currency	—	(624)	(624)
Balance at June 30, 2018	$ 258,375	$ 268,580	$ 526,955

Intangible assets, net consist of the following:

		June 30, 2018			December 31, 2017		
	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer lists	7 - 15 years	$ 354,850	$ (96,095)	$ 258,755	$ 259,350	$ (78,482)	$ 180,868
Proprietary technologies	4 - 8 years	75,543	(38,411)	37,132	57,377	(31,067)	26,310
Trade names	1 - 7 years	29,540	(11,923)	17,617	24,840	(9,701)	15,139
Backlog	4 years	11,000	(10,761)	239	11,000	(10,586)	414
Total intangible assets		$ 470,933	$ (157,190)	$ 313,743	$ 352,567	$ (129,836)	$ 222,731

Envestnet, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements (continued)
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Amortization expense was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Amortization expense	$ 13,419	$ 10,371	$ 27,354	$ 20,956

Future amortization expense of the intangible assets as of June 30, 2018, is expected to be as follows:

Years ending December 31:	
Remainder of 2018	$ 26,051
2019	47,690
2020	43,548
2021	34,762
2022	32,168
Thereafter	129,524
	$ 313,743

Envestnet, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements (continued)
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10. Other Non-Current Assets

Other non-current assets consist of the following:

	June 30, 2018	December 31, 2017
Assets to fund deferred compensation liability	$ 6,729	$ 5,185
Deposits:		
Lease	4,086	4,291
Other	248	615
Deferred sales incentive compensation	5,762	—
Unamortized issuance costs on revolving credit facility	2,679	3,106
Investments in private companies	1,920	2,731
Other	2,483	1,248
	$ 23,907	$ 17,176

11. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consist of the following:

	June 30, 2018	December 31, 2017
Accrued investment manager fees	$ 44,154	$ 39,324
Accrued compensation and related taxes	38,597	43,724
Sales and use tax payable	9,408	9,037
Accrued professional services	4,432	4,985
Accrued interest	864	—
Definite consideration	—	1,250
Other accrued expenses	12,082	7,577
	$ 109,537	$ 105,897

12. Debt

The Company’s outstanding debt obligations as of June 30, 2018 and December 31, 2017 were as follows:

	June 30, 2018	December 31, 2017
Convertible Notes due 2019	$ 172,500	$ 172,500
Unaccreted discount on Convertible Notes due 2019	(8,832)	(11,677)
Unamortized issuance costs on Convertible Notes due 2019	(1,369)	(1,833)
Convertible Notes due 2019 carrying value	$ 162,299	$ 158,990
Convertible Notes due 2023	$ 345,000	$ —
Unaccreted discount on Convertible Notes due 2023	(47,016)	—
Unamortized issuance costs on Convertible Notes due 2023	(8,422)	—
Convertible Notes due 2023 carrying value	$ 289,562	$ —
Revolving credit facility balance	$ —	$ 81,168

Envestnet, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements (continued)
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Interest expense was comprised of the following and is included in other expense, net in the condensed consolidated statement of operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Interest on revolving credit facility	$ 1,429	$ 1,110	$ 3,994	$ 2,455
Accretion of debt discount	2,411	1,344	3,829	2,681
Coupon interest	1,366	754	2,121	1,509
Amortization of issuance costs	621	616	1,071	2,046
Undrawn and other fees	165	53	213	122
	$ 5,992	$ 3,877	$ 11,228	$ 8,813

Credit Agreement

In July 2017, the Company and certain of its subsidiaries entered into a Second Amended and Restated Credit Agreement (the “Second Amended and Restated Credit Agreement”) with a group of banks (the “Banks”). Pursuant to the Second Amended and Restated Credit Agreement, the Banks have agreed to provide to the Company revolving credit commitments (the “Revolving Credit Facility”) in the aggregate amount of up to $350,000 which amount may be increased by $50,000.

The Company incurs interest on borrowings made under the Second Amended and Restated Credit Agreement at rates between 1.50 percent and 3.25 percent above LIBOR based on the Company’s total leverage ratio. Borrowings under the Second Amended and Restated Credit Agreement are scheduled to mature on July 18, 2022.

Obligations under the Second Amended and Restated Credit Agreement are guaranteed by substantially all of the Company’s U.S. subsidiaries. The Second Amended and Restated Credit Agreement includes certain financial covenants and, as of June 30, 2018, the Company was in compliance with these requirements.

On May 24, 2018, Envestnet Inc. and certain of its subsidiaries entered into a first amendment to the second amended and restated credit agreement (the “Credit Agreement Amendment”) amending the second amended and restated credit agreement, dated as of July 18, 2017. The Credit Agreement Amendment made certain technical changes to the calculations of various covenants contained in the Credit Agreement.

Convertible Notes due 2019

On December 15, 2014, the Company issued $172,500 of Convertible Notes that mature on December 15, 2019. The Convertible Notes bear interest at a rate of 1.75 percent per annum payable semiannually in arrears on June 15 and December 15 of each year, beginning on June 15, 2015. The Convertible Notes are general unsecured obligations, subordinated in right of payment to our obligations under our Credit Agreement.

Upon the occurrence of a “fundamental change,” as defined in the indenture, the holders may require the Company to repurchase all or a portion of the Convertible Notes for cash at 100% of the principal amount of the Convertible Notes being purchased, plus any accrued and unpaid interest.

The Convertible Notes are convertible into shares of the Company’s common stock under certain circumstances prior to maturity at a conversion rate of 15.9022 shares per $1 principal amount of the Convertible Notes, which represents a conversion price of $62.88 per share, subject to adjustment under certain conditions. Holders may convert their Convertible Notes at their option at any time prior to the close of business on the business day immediately preceding July 1, 2019, under certain circumstances. The Company’s stated policy is to settle the debt component of the Convertible Notes at least partially or wholly in cash. This policy is based both on the Company’s intent and the Company’s ability to settle these instruments in cash.

Envestnet, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements (continued)
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The effective interest rate of the liability component of the Convertible Notes is equal to the stated interest rate plus the accretion of original issue discount. The effective interest rate on the liability component of the Convertible Notes due 2019 for the three and six months ended June 30, 2018 and 2017 was 6%.

Convertible Notes due 2023

In May 2018, the Company issued $345,000 of Convertible Notes that mature on June 1, 2023. The Convertible Notes bear interest at a rate of 1.75 percent per annum payable semiannually in arrears on June 1 and December 1 of each year, beginning on December 1, 2018. The Convertible Notes are general unsecured obligations, subordinated in right of payment to our obligations under our Credit Agreement. The notes are structurally subordinated to the indebtedness and other liabilities of any of our subsidiaries, other than our wholly owned subsidiary, Envestnet Asset Management, Inc., which will fully and unconditionally guarantee the notes on an unsecured basis. The Convertible Notes rank equally in right of payment with all our other existing and future senior indebtedness.

Upon the occurrence of a “fundamental change,” as defined in the indenture, the holders may require the Company to repurchase all or a portion of the Convertible Notes for cash at 100% of the principal amount of the Convertible Notes being purchased, plus any accrued and unpaid interest. The Company may redeem for cash all or any portion of the notes, at our option, on or after June 5, 2021 if the last reported sale price of our common stock has been at least 130% of the conversion price then in effect for at least 20 trading days, consecutive or non-consecutive, within a 30 consecutive trading day period ending on, and including, any of the five trading days immediately preceding the date on which we provide notice of redemption.

The Convertible Notes are convertible into shares of the Company’s common stock under certain circumstances prior to maturity at a conversion rate of 14.6381 shares per $1 principal amount of the Convertible Notes, which represents a conversion price of $68.31 per share, subject to adjustment under certain conditions. Holders may convert their Convertible Notes at their option at any time prior to the close of business on the business day immediately preceding December 15, 2022, under certain circumstances. The Company’s stated policy is to settle the debt component of the Convertible Notes at least partially or wholly in cash. This policy is based both on the Company’s intent and the Company’s ability to settle these instruments in cash.

The effective interest rate of the liability component of the Convertible Notes is equal to the stated interest rate plus the accretion of original issue discount. The effective interest rate on the liability component of the Convertible Notes due 2023 for the three and six months ended June 30, 2018 was 6%.

See “Note 17 – Net Income (Loss) Per Share” for further discussion of the effect of conversion on net loss per common share.

13. Other Non-Current Liabilities

Other non-current liabilities consist of the following:

	June 30, 2018	December 31, 2017
Uncertain tax positions	$ 10,827	$ 10,640
Deferred compensation liability	5,852	4,364
Other	65	98
	$ 16,744	$ 15,102

14. Fair Value Measurements

The Company follows ASC 825-10, Financial Instruments, which provides companies the option to report selected financial assets and liabilities at fair value. ASC 825-10 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect of the company’s choice to use fair value on its earnings. ASC 825-10 also requires entities to display the fair value of the selected assets and liabilities on the face of the balance sheet. The Company has not elected the ASC 825-10 option to report selected financial assets and liabilities at fair value.

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

Financial assets and liabilities at fair value are categorized based upon a fair value hierarchy established by GAAP, which prioritizes the inputs used to measure fair value into the following levels:

Level I: Inputs based on quoted market prices in active markets for identical assets or liabilities at the measurement date.

Level II: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or inputs that are observable and can be corroborated by observable market data.

Level III: Inputs reflect management's best estimates and assumptions of what market participants would use in pricing the asset or liability at the measurement date. The inputs are unobservable in the market and significant to the valuation of the instruments.

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 June 30, 2018 and December 31, 2017, based on the three-tier fair value hierarchy.

	June 30, 2018			
	Fair Value	Level I	Level II	Level III
Assets				
Money market funds and other [(1)]	$ 106,038	$ 106,038	$ —	$ —
Assets to fund deferred compensation liability[(2)]	6,729	—	—	6,729
Total assets	$ 112,767	$ 106,038	$ —	$ 6,729
Liabilities				
Contingent consideration	$ 707	$ —	$ —	$ 707
Deferred compensation liability[(3)]	5,852	5,852	—	—
Total liabilities	$ 6,559	$ 5,852	$ —	$ 707

	December 31, 2017			
	Fair Value	Level I	Level II	Level III
Assets				
Money market funds[(1)]	$ 39,400	$ 39,400	$ —	$ —
Assets to fund deferred compensation liability[(2)]	5,185	—	—	5,185
Total assets	$ 44,585	$ 39,400	$ —	$ 5,185
Liabilities				
Contingent consideration	$ 2,781	$ —	$ —	$ 2,781
Deferred compensation liability[(3)]	4,364	4,364	—	—
Total liabilities	$ 7,145	$ 4,364	$ —	$ 2,781

(1) The fair values of the Company's investments in money-market funds are based on the daily quoted market prices for the net asset value of the various money market funds and time deposit accounts which mature on a daily basis.
(2) The fair value of assets to fund deferred compensation liability approximates the cash surrender value of the life insurance premiums and is included in other non-current assets in the condensed consolidated balance sheets.
(3) The deferred compensation liability is included in other non-current liabilities in the condensed consolidated balance sheets and its fair market value is based on the daily quoted market prices for the net asset values of the various funds in which the participants have selected.

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

Level I assets and liabilities include money-market funds not insured by the FDIC and deferred compensation liability. The Company periodically invests excess cash in money-market funds not insured by the FDIC. The Company believes that the investments in money market funds are on deposit with creditworthy financial institutions and that the funds are highly liquid. These money-market funds are considered Level I and are included in cash and cash equivalents in the condensed consolidated balance sheets. The fair value of the deferred compensation liability is based upon the daily quoted market prices for net asset value on the various funds selected by participants. Time deposit account fair values are determined by trade confirmations which mature daily and therefore are considered highly liquid investments.

Level III assets and liabilities consist of the estimated fair value of contingent consideration as well as the assets to fund deferred compensation liability. The fair market value of the assets to fund deferred compensation liability is based upon the cash surrender value of the life insurance premiums.

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

The Company utilized a discounted cash flow method with expected future performance of Wheelhouse, and its ability to meet the target performance objectives as the main driver of the valuation, to arrive at the fair value of its respective contingent consideration. The Company will continue to reassess the fair value of the contingent consideration made subsequent to the measurement period for each acquisition at each reporting date until settlement. Changes to the estimated fair values of the contingent consideration will be recognized in earnings of the Company and included in general and administration on the condensed consolidated statements of operations.

The table below presents a reconciliation of the assets to fund deferred compensation liability of which the Company measured at fair value on a recurring basis using significant unobservable inputs (Level III) for the period from December 31, 2017 to June 30, 2018:

	Fair Value of Assets to Fund Deferred Compensation Liability
Balance at December 31, 2017	$ 5,185
Contributions and fair value adjustments	1,544
Balance at June 30, 2018	$ 6,729

The asset value was increased due to contributions to the Plan and immaterial gains on the underlying investment vehicles which resulted in an asset value as of June 30, 2018 of $6,729, which was included in other non-current assets on the condensed consolidated balance sheets.

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

The table below presents a reconciliation of contingent consideration liabilities of which the Company measured at fair value on a recurring basis using significant unobservable inputs (Level III) for the period from December 31, 2017 to June 30, 2018:

	Fair Value of Contingent Consideration Liabilities
Balance at December 31, 2017	$ 2,781
Payment of contingent consideration liability	(2,193)
Accretion on contingent consideration	119
Balance at June 30, 2018	$ 707

The Company assesses the categorization of assets and liabilities by level at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer, in accordance with the Company's accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. There were no transfers between Levels I, II and III during the six months ended June 30, 2018.

On December 15, 2014, the Company issued $172,500 of Convertible Notes due 2019.As of June 30, 2018 and December 31, 2017, the carrying value of the Convertible Notes due 2019 equaled $162,299 and $158,990, respectively, and represents the aggregate principal amount outstanding less the unamortized discount and debt issuance costs. As of June 30, 2018 and December 31, 2017, the fair value of the Convertible Notes due 2019 was $182,333 and $180,180, respectively. The Company considers the Convertible Notes due 2019 to be Level II liabilities and uses a market approach to calculate the fair value. The estimated fair value was determined based on the estimated or actual bids and offers of the Convertible Notes due 2019 in an over-the-counter market on June 30, 2018 (see "Note 12 – Debt").

On May 25, 2018, the Company issued $345,000 of Convertible Notes due 2023.As of June 30, 2018, the carrying value of the Convertible Notes due 2023 equaled $289,562 and represents the aggregate principal amount outstanding less the unamortized discount and debt issuance costs. As of June 30, 2018, the fair value of the Convertible Notes due 2023 was $356,923. The Company considers the Convertible Notes due 2023 to be Level II liabilities and uses a market approach to calculate the fair value. The estimated fair value was determined based on the estimated or actual bids and offers of the Convertible Notes due 2023 in an over-the-counter market on June 30, 2018 (see "Note 12 – Debt").

As of June 30, 2018 and December 31, 2017, there was $0 and $81,168, respectively, outstanding on the revolving credit facility under the Second Amended and Restated Credit Agreement. As of December 31, 2017, the outstanding balance on our revolving credit facility approximated fair value as the revolving credit facility bore interest at variable rates and we believe our credit risk quality is consistent with when the debt originated. The Company considers the revolving credit facility as of December 31, 2017 to be Level I liability (See "Note 12 – Debt").

We consider the recorded value of our other financial assets and liabilities, which consist primarily of cash and cash equivalents, accounts receivable and accounts payable, to approximate the fair value of the respective assets and liabilities at June 30, 2018 based upon the short-term nature of the assets and liabilities.

15. Stock-Based Compensation

The Company has stock options and restricted stock units outstanding under the 2004 Stock Incentive Plan (the "2004 Plan") and the 2010 Long-Term Incentive Plan (the "2010 Plan").

As of June 30, 2018, the maximum number of common shares of the Company available for future issuance under the Company's plans is 3,091,345.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Stock-based compensation expense	$ 10,476	$ 7,945	$ 18,971	$ 15,403
Tax effect on stock-based compensation expense	(2,650)	(2,983)	(4,800)	(5,784)
Net effect on income	$ 7,826	$ 4,962	$ 14,171	$ 9,619

The tax effect on stock-based compensation expense above was calculated using a blended statutory rate of 25.3% for the three and six months ended June 30, 2018. The tax effect on stock-based compensation expense above was calculated using a blended statutory rate of 37.5% for the three and six months ended June 30, 2017. However, due to the valuation allowance recorded on domestic deferreds, there was no tax effect related to stock-based compensation expense for the three and six months ended June 30, 2018.

Stock Options

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Grant date fair value of options	$ —	$ —	$ —	$ 14.51
Volatility	— %	— %	— %	43.8 %
Risk-free interest rate	— %	— %	— %	2.1 %
Dividend yield	— %	— %	— %	— %
Expected term (in years)	—	—	—	6.3

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

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2017	2,254,565	$ 19.23	4.3	$ 69,939
Exercised	(162,857)	14.76		
Forfeited	(1,668)	32.46		
Outstanding as of March 31, 2018	2,090,040	19.57	4.1	78,859
Granted	—	—		
Exercised	(12,166)	11.42		
Forfeited	—	—		
Outstanding as of June 30, 2018	2,077,874	19.62	3.9	73,421
Options exercisable	1,975,716	19.17	3.6	$ 70,703

Exercise prices of stock options outstanding as of June 30, 2018 range from $7.15 to $55.29. At June 30, 2018, there was $1,197 of unrecognized stock-based compensation expense related to unvested stock options, which the Company expects to recognize over a weighted-average period of 1.4 years.

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

Restricted Stock Units and Restricted Stock Awards

Periodically, the Company grants restricted stock unit awards to employees. The following is a summary of the activity for unvested restricted stock units and awards granted under the Company's plans:

	Number of Shares	Weighted-Average Grant Date Fair Value per Share
Outstanding as of December 31, 2017	1,766,639	$ 32.48
Granted	925,641	55.21
Vested	(503,668)	34.05
Forfeited	(27,265)	30.79
Outstanding as of March 31, 2018	2,161,347	41.59
Granted	—	—
Vested	(253,279)	31.13
Forfeited	(27,324)	39.78
Outstanding as of June 30, 2018	1,880,744	$ 43.36

At June 30, 2018, there was $73,482 of unrecognized stock-based compensation expense related to unvested restricted stock units and awards, which the Company expects to recognize over a weighted-average period of 2.2 years.

During March 2018, the Company granted 26,000 performance-based restricted stock unit awards to certain employees. These performance-based shares vest upon the achievement of certain business and financial metrics. The business and financial metrics governing the vesting of these stock unit awards provide thresholds which dictate the number of shares to vest upon each evaluation date, which range from 50% to 150%. If these metrics are achieved at 100%, as defined in the individual grant terms, these shares would vest over three annual tranches equally.

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Loss before income tax provision (benefit)	$ (5,425)	$ (1,626)	$ (11,417)	$ (10,463)
Income tax provision (benefit)	566	4,844	(13,428)	9,142
Effective tax rate	(10.4)%	(297.9)%	117.6 %	(87.4)%

For the three months ended June 30, 2018, our effective tax rate differed from the statutory rate primarily due to the valuation allowance the Company has placed on all US deferreds with the exception of indefinite lived intangibles, additional accruals for uncertain tax positions, the impact of clarifying Base Erosion and Anti Abuse tax positions, as well as differences between the foreign tax rates and statutory US tax rate.

For the three months ended June 30, 2017, our effective tax rate differed from the statutory rate primarily due to the valuation allowance the Company had placed on all US deferreds with the exception of indefinite-lived intangibles and unrepatriated foreign earnings and profits, resulting in no benefit being recognized for the tax loss in the US.

For the six months ended June 30, 2018, our effective tax rate differed from the statutory rate primarily due to the release of the Company's valuation allowance as a result of additional deferred tax liabilities recorded with the acquisition of FolioDynamix, additional accruals for uncertain tax positions as well as differences between the foreign tax rates and statutory US tax rate.

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

For the six months ended June 30, 2017, our effective tax rate differed from the statutory rate primarily due to the valuation allowance the Company had placed on all US deferreds with the exception of indefinite-lived intangibles and unrepatriated foreign earnings and profits, resulting in no benefit being recognized for the tax loss in the US.

In December 2017, the Tax Cuts and Jobs Act ("Tax Act") was enacted into United States law. Beginning in 2018, the Tax Act includes the global intangible low-taxed income ("GILTI") provision and base erosion anti abuse tax ("BEAT"). We elected to account for GILTI tax in the period in which it is incurred. The GILTI provision requires us to include in our U.S. income tax return foreign subsidiary earnings in excess of an allowable return on the foreign subsidiary's tangible assets. We expect to fully offset any GILTI income with Net Operating Losses ("NOLs"). As a result of our domestic valuation allowance, we do not expect a financial statement impact due to the GILTI provision. Additionally the Tax Act requires us to calculate a minimum tax on our foreign earnings and profits; BEAT. As a result of further research and developing guidance we do not require a BEAT provision to be recorded.

In accordance with Staff Accounting Bulletin 118, we recognized provisional tax impacts related to the deemed repatriated foreign earnings in our consolidated financial statements for the year ended December 31, 2017. The ultimate impact may differ from those provisional amounts, possibly materially, due to, among other things, additional analysis, changes in interpretations and assumptions we have made, additional regulatory guidance that may be issued, and actions we may take as a result of the Tax Act. During the six months ended June 30, 2018 we did not record any adjustments to our provisional amounts included in our consolidated financial statements for the year ended December 31, 2017. The accounting is expected to be completed when the 2017 U.S. corporate income tax return is filed in October of 2018.

The total gross liability for unrecognized tax benefits, exclusive of interest and penalties, was $18,895 and $18,312 at June 30, 2018 and December 31, 2017, respectively. Of this amount, a portion of the unrecognized tax benefits was recorded as a reduction of deferred tax assets instead of a non-current liability. The portion of the unrecognized tax benefits, exclusive of interest and penalties, recorded as a non-current liability is $4,871 and $4,626 at June 30, 2018 and December 31, 2017, respectively.

At June 30, 2018, the amount of unrecognized tax benefits, including interest and penalties, that would benefit the Company's effective tax rate, if recognized, was $10,827. At this time, the Company estimates that the liability for unrecognized tax benefits will not decrease in the next twelve months as it is not anticipated that reviews by tax authorities will be completed and there will be any expiration of certain statutes of limitations in this time period.

The Company recognizes potential interest and penalties related to unrecognized tax benefits in income tax expense. Income tax expense includes $548 and $890 of potential interest and penalties related to unrecognized tax benefits for the six months ended June 30, 2018 and 2017, respectively. The Company had accrued interest and penalties of $6,566 and $6,018 as of June 30, 2018 and December 31, 2017, respectively.

17. Net Income (Loss) Per Share

Basic income (loss) per common share is computed by dividing net income (loss) available to common stockholders by the weighted average number of shares of common stock outstanding for the period. For the calculation of diluted income (loss) per share, the basic weighted average number of shares is increased by the dilutive effect of stock options, restricted stock awards, restricted stock units and Convertible Notes due 2019 and 2023 (collectively "Convertible Notes") using the treasury stock method, if dilutive. No items were included in the computation of diluted loss per share in the three months ended June 30, 2018 and 2017 as well as the six months ended June 30, 2017 because the Company incurred a net loss attributable to Envestnet, Inc. in those periods and therefore these items were considered anti-dilutive.

The Company accounts for the effect of the Convertible Notes on diluted earnings per share using the treasury stock method since they may be settled in cash, shares or a combination thereof at the Company's option. As a result, the Convertible Notes have no effect on diluted earnings per share until the Company's stock price exceeds the conversion price of $62.88 and $68.31 per share, respectively, or if the trading price of the Convertible Notes meets certain criteria (See "Note 12 – Debt" in Part II, Item 8 of our 2017 Form 10-K and "Note 12 – Debt" in this Form 10-Q). In the period of conversion, the Convertible Notes will have no impact on diluted earnings if the Convertible Notes are settled in cash and will have an impact on dilutive earnings per share if the Convertible Notes are settled in shares upon conversion.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Basic income (loss) per share calculation:				
Net income (loss) attributable to Envestnet, Inc.	$ (5,526)	$ (6,470)	$ 2,578	$ (19,605)
Basic number of weighted-average shares outstanding	45,247,331	43,855,479	44,963,735	43,513,074
Basic net income (loss) per share	$ (0.12)	$ (0.15)	$ 0.06	$ (0.45)
Diluted income (loss) per share calculation:				
Net income (loss) attributable to Envestnet, Inc.	$ (5,526)	$ (6,470)	$ 2,578	$ (19,605)
Basic number of weighted-average shares outstanding	45,247,331	43,855,479	44,963,735	43,513,074
Effect of dilutive shares:				
Options to purchase common stock	—	—	1,360,300	—
Unvested restricted stock units	—	—	832,170	—
Diluted number of weighted-average shares outstanding	45,247,331	43,855,479	47,156,205	43,513,074
Diluted net income (loss) per share	$ (0.12)	$ (0.15)	$ 0.05	$ (0.45)

Securities that were anti-dilutive for the three and six months ended June 30, 2018 and 2017 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Options to purchase common stock	2,077,874	2,804,420	9,045	2,804,420
Unvested restricted stock awards and units	1,880,744	2,023,898	—	2,023,898
Convertible Notes	7,793,826	2,743,321	7,793,826	2,743,321
Total	11,752,444	7,571,639	7,802,871	7,571,639

18. 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 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 is involved in legal proceedings arising in the ordinary course of its business. Legal fees and other costs associated with such actions are expensed as incurred. The Company will record a provision for these claims when it is both probable that a liability has been incurred and the amount of the loss, or a range of the potential loss, can be reasonably estimated. These provisions are reviewed regularly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information or events pertaining to a particular case. Legal proceedings accruals are recorded when and if it is determined that a loss is both probable and reasonably estimable. For litigation matters where a loss may be reasonably possible, but not probable, or is probable but not reasonably estimable, no accrual is established, but if the matter is material, it is subject to disclosures. The Company believes that liabilities associated with any claims, while possible, are not probable, and therefore has not recorded any accrual for any claims as of June 30, 2018. Further, while any possible range of loss cannot be reasonably estimated at this time, the Company does not believe that the outcome of any of these proceedings, individually or in the aggregate, would, if determined adversely to it, have a material adverse effect on its financial condition or business, although an adverse resolution of legal proceedings could have a material adverse effect on Envestnet's results of operations or cash flow in a particular quarter or year.

Contingencies

Certain of the Company's revenues are subject to sales and use taxes in certain jurisdictions where it conducts business in the United States. As of June 30, 2018, the Company estimated a sales and use tax liability of $9,234. This amount is included in accrued expenses and other liabilities on the condensed consolidated balance sheets. The Company also estimated a sales and use tax receivable of $3,413 related to estimated recoverability of amounts due from customers. This amount is included in prepaid expenses and other current assets on the condensed consolidated balance sheets. As a result, a net sales and use tax liability of $5,830 related to multiple jurisdictions with respect to revenues in the three and six months ended June 30, 2018 and prior periods was probable. Additional future information obtained from the applicable jurisdictions may affect the Company's estimate of its sales and use tax liability, but such change in the estimate cannot currently be made.

Leases

The Company rents office space under leases that expire at various dates through 2030. As of June 30, 2018, the Company's future minimum lease commitments under these operating leases totaled $105,124.

19. Segment Information

Business segments are generally organized around our business services. Our business segments are:

- *Envestnet* – a leading provider of unified wealth management software and services to empower financial advisors and institutions.
- *Envestnet | Yodlee* – a leading data aggregation and data analytics platform powering dynamic, cloud-based innovation for digital financial services.

The information in the following tables is derived from the Company's internal financial reporting used for corporate management purposes. Nonsegment expenses include salary and benefits for certain corporate employees and officers, certain types of professional fees, insurance, acquisition related transaction costs, restructuring charges, and other non-operationally related expenses. Inter-segment revenues were not material for the three and six months ended June 30, 2018 and 2017.

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

The following table presents revenue by segment:

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Revenue:				
Envestnet	$ 156,928	$ 129,372	$ 312,916	$ 250,690
Envestnet | Yodlee	44,188	38,045	86,211	74,513
Consolidated revenue	$ 201,116	$ 167,417	$ 399,127	$ 325,203
Fidelity revenue as a percentage of Envestnet segment revenue:	21%	20%	21%	20%

No single customer amounts for Envestnet | Yodlee exceeded 10% of the segment total for any period presented.

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

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Envestnet	$ 16,359	$ 15,811	$ 32,220	$ 29,322
Envestnet | Yodlee	(3,296)	(5,635)	(7,705)	(13,343)
Total segment income from operations	13,063	10,176	24,515	15,979
Nonsegment operating expenses	(13,058)	(7,433)	(25,248)	(16,590)
Other expense, net	(5,430)	(4,369)	(10,684)	(9,852)
Consolidated loss before income tax provision (benefit)	(5,425)	(1,626)	(11,417)	(10,463)
Income tax provision (benefit)	566	4,844	(13,428)	9,142
Consolidated net income (loss)	(5,991)	(6,470)	2,011	(19,605)
Add: Net loss attributable to non-controlling interest	465	—	567	—
Consolidated net income (loss) attributable to Envestnet, Inc.	$ (5,526)	$ (6,470)	$ 2,578	$ (19,605)

Segment assets consist of cash, accounts receivable, prepaid expenses and other current assets, property, plant and equipment, net, internally developed software, net, goodwill, and other intangibles, net, and other non-current assets. Segment capital expenditures consist of property and equipment and internally developed software expenditures.

A summary of consolidated total assets, consolidated depreciation and amortization and consolidated capital expenditures follows:

	June 30, 2018	December 31, 2017
Segment assets:		
Envestnet	$ 650,363	$ 353,048
Envestnet | Yodlee	504,813	509,004
Consolidated total assets	$ 1,155,176	$ 862,052

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Segment depreciation and amortization:				
Envestnet	$ 11,026	$ 6,361	$ 22,499	$ 12,782
Envestnet | Yodlee	8,159	9,104	16,232	18,518
Consolidated depreciation and amortization	$ 19,185	$ 15,465	$ 38,731	$ 31,300

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Segment capital expenditures:				
Envestnet	$ 8,344	$ 7,580	$ 16,536	$ 12,931
Envestnet | Yodlee	2,260	1,154	3,655	1,901
Consolidated capital expenditures	$ 10,604	$ 8,734	$ 20,191	$ 14,832

20. Geographical Information

The following table sets forth property and equipment, net by geographic area:

	June 30, 2018	December 31, 2017
United States	$ 35,812	$ 30,647
India	4,109	4,907
Other	476	355
Total	$ 40,397	$ 35,909

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

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

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

Forward-Looking Statements

This quarterly report on Form 10-Q contains forward-looking statements regarding future events and our future results within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, in particular, statements about our plans, strategies and prospects under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations." These statements are based on our current expectations and projections about future events and are identified by terminology such as "anticipate," "believe," "continue," "could," "estimate," "expect," "expected," "intend," "will," "may," or "should" or the negative of those terms or variations of such words, and similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our business and other characteristics of future events or circumstances are forward-looking statements. Forward-looking statements may include, among others, statements relating to:

- *difficulty in sustaining rapid revenue growth, which may place significant demands on our administrative, operational and financial resources,*
- *the concentration of nearly all of our revenues from the delivery of our solutions and services to clients in the financial services industry,*
- *our reliance on a limited number of clients for a material portion of our revenue,*
- *the renegotiation of fee percentages or termination of our services by our clients,*
- *our ability to identify potential acquisition candidates, complete acquisitions and successfully integrate acquired companies,*
- *the impact of market and economic conditions on revenues,*
- *our inability to successfully execute the conversion of clients' assets from their technology platform to our technology platforms in a timely and accurate manner,*
- *our ability to expand our relationships with existing customers, grow the number of customers and derive revenue from new offerings such as our data analytics solutions and market research services and premium financial applications ("FinApps"),*
- *compliance failures,*
- *adverse judicial or regulatory proceedings against us,*
- *liabilities associated with potential, perceived or actual breaches of fiduciary duties and/or conflicts of interest,*
- *changes in laws and regulations, including tax laws and regulations,*
- *general economic conditions, political and regulatory conditions,*
- *the impact of fluctuations in market condition and interest rates on the demand for our products and services and the value of assets under management or administration,*
- *the impact of market conditions on our ability to issue debt and equity,*
- *the impact of fluctuations in interest rates on our cost of borrowing,*
- *our financial performance,*
- *the amount of our debt and our ability to service our debt,*

- *the results of our investments in research and development, our data center and other infrastructure,*
- *our ability to maintain the security and integrity of our systems and facilities and to maintain the privacy of personal information,*
- *failure of our systems to work properly,*
- *our ability to realize operating efficiencies,*
- *the advantages of our solutions as compared to those of others,*
- *the failure to protect our intellectual property rights,*
- *our ability to establish and maintain intellectual property rights,*
- *our ability to retain and hire necessary employees and appropriately staff our operations, and*
- *management's response to these factors.*

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

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

These forward-looking statements involve risks and uncertainties. Important factors that could cause actual results to differ materially from the forward-looking statements we make in this quarterly report are set forth in Part I under "Risk Factors"; accordingly, investors should not place undue reliance upon our forward-looking statements. We undertake no obligation to update any of the forward-looking statements after the date of this report to conform those statements to reflect the occurrence of unanticipated events, except as required by applicable law.

You should read this quarterly report on Form 10-Q and our annual report on Form 10-K for the year ended December 31, 2017 (the "2017 Form 10-K") completely and with the understanding that our actual future results, levels of activity, performance and achievements may be different from what we expect and that these differences may be material. We qualify all of our forward-looking statements by these cautionary statements.

The following discussion and analysis should also be read along with our condensed consolidated financial statements and the related notes included elsewhere in this quarterly report and the consolidated financial statements and related notes included in our 2017 Form 10-K. Except for the historical information contained herein, this discussion contains forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those discussed below.

Overview

Envestnet is a leading provider of intelligent systems for wealth management and financial wellness. Envestnet's unified technology enhances advisor productivity and strengthens the wealth management process, delivering unparalleled flexibility, accuracy, performance, and value. Envestnet enables a transparent, independent, objective, and fiduciary standard of care, and empowers enterprises and advisors to more fully understand their clients and deliver better outcomes.

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

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

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

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

Recent Events

Acquisition of FolioDynamix

On January 2, 2018, Envestnet acquired (the "Acquisition") Folio Dynamics Holdings, Inc., a Delaware corporation ("FolioDynamix") through a merger of FolioDynamix with and into a wholly owned subsidiary of Envestnet. The completion of the Acquisition on January 2, 2018 followed the receipt of all necessary regulatory approvals and third party consents.

In connection with the Acquisition, Envestnet paid estimated consideration of $193,484 for FolioDynamix, subject to certain closing and post-closing adjustments. Envestnet funded the Acquisition price with a combination of cash on the Company's balance sheet, purchase consideration liabilities and borrowings under its revolving credit facility.

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

The acquisition of FolioDynamix added complementary trading tools as well as commission and brokerage support to Envestnet's existing suite of offerings. The Company expects to integrate the technology and operations of FolioDynamix into the Company's wealth management business, enabling the Company to further leverage its operating scale and data analytics capabilities. FolioDynamix is included in the Envestnet segment.

Investment in Private Company

On March 16, 2018, the Company purchased 4,000 units representing approximately 47% of the outstanding membership interests of a private company for cash consideration of $1,333. The Company uses the consolidation method of accounting for this investment. The private company was formed to enable financial advisors to provide insurance and income protection products to their clients.

Private Offering of Convertible Notes due 2023

In May 2018, we issued $345,000 of Convertible Notes maturing June 1, 2023. Net proceeds from the offering were $335,513. The Convertible Notes due 2023 bear interest at a rate of 1.75 percent per annum payable semiannually in arrears on June 1 and December 1 of each year, beginning on December 1, 2018.

The Convertible Notes due 2023 are general unsecured obligations, subordinated in right of payment to our obligations under our Credit Agreement. The Convertible Notes due 2023 are convertible into shares of the Company's common stock under certain circumstances prior to maturity at a conversion rate of 14.6381 shares per $1 principal amount of the Convertible Notes due 2023, which represents a conversion price of $68.31 per share, subject to adjustment under certain conditions. For more information on the Convertible Notes due 2023, see "Note 12 – Debt" in the notes to these unaudited condensed consolidated financial statements.

Segments

Envestnet is organized around two primary, complementary business segments. Financial information about each business segment is contained in "Note 19 – Segment Information" to the condensed consolidated financial statements. Our business segments are as follows:

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

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

Envestnet Segment

Envestnet empowers financial advisors at broker-dealers, banks, and RIAs with all the tools they require to deliver holistic wealth management to their end clients. In addition, the firm provides advisors with practice management support so that they can grow their practices and operate more efficiently. By June 30, 2018, Envestnet's platform assets grew to approximately $2.7 trillion in 10.2 million accounts overseen by approximately 90 thousand advisors.

Services provided to advisors include: financial planning, risk assessment and selection of investment strategies and solutions, asset allocation models, research and due diligence, portfolio construction, proposal generation and paperwork preparation, model management and account rebalancing, account monitoring, customized fee billing, overlay services covering asset allocation, tax management and socially responsible investing, aggregated multi-custodian performance reporting and communication tools, plus data analytics. Envestnet has access to a wide range of leading third-party asset custodians.

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

· ***Envestnet | Enterprise*** provides an end-to-end open architecture wealth management platform, through which advisors can construct portfolios for clients. It begins with aggregated household data which then leads to a financial plan, asset allocation, investment strategy, portfolio management, rebalancing and performance reporting. Advisors have access to over 18,400 investment products. Envestnet | Enterprise also sells data aggregation and reporting, data analytics, and digital advice capabilities to customers.

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

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

· ***Envestnet | PMC® or Portfolio Management Consultants ("PMC")*** provides research, due diligence and consulting services to assist advisors in creating investment solutions for their clients. These solutions include nearly 4,900 vetted third party managed account products, multi-manager portfolios, fund strategist portfolios, as well as over 1,700 proprietary products, such as quantitative portfolios and fund strategist portfolios. PMC also offers an overlay service, which includes patented portfolio overlay and tax optimization services.

Key Metrics

Key metrics as of June 30, 2018 include impact of the acquisition of FolioDynamix on January 2, 2018, detailed within the following table.

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

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

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

	As of June 30, 2017	As of September 30, 2017	As of December 31, 2017	As of March 31, 2018	As of June 30, 2018
	(in millions except accounts and advisors data)				
Platform Assets					
Assets Under Management (AUM)	$ 122,543	$ 131,809	$ 141,518	$ 143,945	$ 148,537
Assets Under Administration (AUA)	271,450	293,963	308,480	353,379	360,850
Total AUM/A	393,993	425,772	449,998	497,324	509,387
Subscription	1,099,775	1,161,893	1,253,528	2,076,382	2,167,084
Total Platform Assets	$ 1,493,768	$ 1,587,665	$ 1,703,526	$ 2,573,706	$ 2,676,471
Platform Accounts					
AUM	614,973	652,060	685,925	724,774	759,926
AUA	1,083,417	1,145,050	1,217,697	1,389,489	1,417,795
Total AUM/A	1,698,390	1,797,110	1,903,622	2,114,263	2,177,721
Subscription	4,846,596	4,944,640	5,054,015	7,985,777	8,042,900
Total Platform Accounts	6,544,986	6,741,750	6,957,637	10,100,040	10,220,621
Advisors					
AUM/A	38,498	40,379	40,485	44,790	44,900
Subscription	24,499	24,501	25,566	43,037	43,700
Total Advisors	62,997	64,880	66,051	87,827	88,600

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 June 30, 2018

	As of 3/31/2018	Gross Sales	Redemptions	Net Flows	Market Impact	Reclass to Subscription	As of 6/30/2018
	(in millions except account data)						
AUM	$ 143,945	$ 13,859	$ (8,138)	$ 5,721	$ 987	$ (2,116)	$ 148,537
AUA	353,379	27,015	(23,186)	3,829	5,022	(1,380)	360,850
Total AUM/A	**$ 497,324**	**$ 40,874**	**$ (31,324)**	**$ 9,550**	**$ 6,009**	**$ (3,496)**	**$ 509,387**
Fee-Based Accounts	*2,114,263*			*65,515*		*(2,057)*	*2,177,721*

The above AUM/A gross sales figures include $5.1 billion in new client conversions. The Company onboarded an additional $31.0 billion in subscription conversions during the three months ended June 30, 2018, bringing total conversions for the quarter to $36.1 billion.

Asset Rollforward - Six Months Ended June 30, 2018

	As of 12/31/2017	FolioDynamix	Gross Sales	Redemptions	Net Flows	Market Impact	Reclass to Subscription	As of 6/30/2018
	(in millions except account data)							
AUM	$ 141,518	$ 8,736	$ 29,634	$ (28,114)	$ 1,520	$ (1,121)	$ (2,116)	$ 148,537
AUA	308,480	33,182	70,888	(51,409)	19,479	1,089	(1,380)	360,850
Total AUM/A	**$ 449,998**	**$ 41,918**	**$ 100,522**	**$ (79,523)**	**$ 20,999**	**$ (32)**	**$ (3,496)**	**$ 509,387**
Fee-Based Accounts	*1,903,622*	*136,294*			*139,862*		*(2,057)*	*2,177,721*

The AUM/A gross sales figures on the previous page include $28.5 billion in new client conversions. The Company onboarded an additional $41.6 billion in subscription conversions during the six months ended June 30, 2018, bringing total conversions for the quarter to $70.1 billion.

Envestnet | Yodlee Segment

Envestnet | Yodlee is a leading data aggregation and data analytics platform. As a "big data" specialist, Envestnet | Yodlee gathers, refines and aggregates a massive set of end-user permissioned transaction level data, which it then provides to customers as de-identified data analytics solutions and market research services.

More than 1,100 financial institutions, financial technology innovators and financial advisory firms, including 13 of the 20 largest U.S. banks, subscribe to the Envestnet | Yodlee platform to underpin personalized financial apps and services for over 22 million paid subscribers.

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

- **The Financial Institutions** group provides customers with secure access to open application programming interfaces ("APIs"), end-user facing applications powered by our platform and APIs ("FinApps"), and also reports. Customers receive end user-permissioned transaction data elements that we aggregate and cleanse. Envestnet | Yodlee also enables customers to develop their own applications through its open APIs, which deliver secure data, money movement solutions, and other functionality. FinApps can be subscribed to individually or in combinations that include personal financial management, wealth management, card, payments and small-medium business solutions. They are targeted at the retail financial, wealth management, small business, card, lenders, and other financial services sectors. These FinApps help consumers and small businesses simplify and manage their finances, review their financial accounts, track their spending, calculate their net worth, and perform a variety of other activities. For example, Yodlee's Expense FinApp helps consumers track their spending, and a Payroll FinApp from a third party helps small businesses process their payroll. The suite of reports is designed to supplement traditional credit reports by utilizing consumer permissioned aggregated data from over 18,000 sources, including banking, investment, loan, and credit card information.

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

Both FI and YI channels benefit customers by improving end-user satisfaction and retention, accelerating speed to market, creating technology savings and enhancing their data analytics solutions and market research capabilities. End users receive better access to their financial information and more control over their finances, leading to more informed and personalized decision making. For customers who are members of the developer community, Envestnet | Yodlee solutions provide access to critical data and payments solutions, faster speed to market and enhanced distribution.

We believe that our brand leadership, innovative technology and intellectual property, large customer base, and unique data gathering and enrichment provide us with competitive advantages that have enabled us to generate strong growth.

- **Envestnet Analytics** provides data analytics, mobile sales solutions, and online education tools to financial advisors, asset managers and enterprises. These tools empower financial services firms to extract key business insights to run their business better and provide timely and focused support to advisors.

Our dashboards deliver segmentation analytics, multi-dimensional benchmarking, and practice pattern analyses that provide mission-critical insights to clients.

Operational Highlights

Asset-based recurring revenues increased 19% from $98,959 in the three months ended June 30, 2017 to $118,111 in the three months ended June 30, 2018. Subscription-based recurring revenue increased 20% from $59,802 in the three months ended June 30, 2017 to $71,779 in the three months ended June 30, 2018. Total revenues, which include professional services and other revenues, increased 20% from $167,417 in the three months ended June 30, 2017 to $201,116 in the three months ended June 30, 2018. The increase in total revenues was primarily a result of an increase of $17,346 related to the acquisition of FolioDynamix. The Envestnet segment total revenue excluding Folio increased $10,210 primarily due to the positive effects of new account growth and positive net flows of AUM/A as well as an increase in subscription-based revenues of $3,140. The Envestnet | Yodlee segment total revenue increased by $6,143 primarily due to an increase in subscription-based revenue of $4,425.

Asset-based recurring revenues increased 24% from $193,121 in the six months ended June 30, 2017 to $239,264 in the six months ended June 30, 2018. Subscription-based recurring revenue increased 20% from $117,712 in the six months ended June 30, 2017 to $141,474 in the six months ended June 30, 2018. Total revenues, which include professional services and other revenues, increased 23% from $325,203 in the six months ended June 30, 2017 to $399,127 in the six months ended June 30, 2018. The increase in total revenues was primarily a result of an increase of $34,800 related to the acquisition of FolioDynamix. The Envestnet segment total revenue excluding Folio increased $27,426 primarily due to the positive effects of new account growth and positive net flows of AUM/A as well as an increase in subscription-based revenues of $5,930. The Envestnet | Yodlee segment total revenue increased by $11,698 primarily due to an increase in subscription-based revenue of $8,862.

The net loss attributable to Envestnet, Inc. for the three months ended June 30, 2018 was $5,526, or $0.12 per diluted share, compared to a net loss attributable to Envestnet, Inc. of $6,470 or $0.15 per diluted share for the three months ended June 30, 2017. The net income attributable to Envestnet, Inc. for the six months ended June 30, 2018 was $2,578, or $0.05 per diluted share, compared to a net loss attributable to Envestnet, Inc. of $19,605 or $0.45 per diluted share for the six months ended June 30, 2017.

Adjusted revenues for the three months ended June 30, 2018 was $201,178, an increase of 20% from $167,469 in the prior year period. Adjusted EBITDA for the three months ended June 30, 2018 was $34,759, an increase of 18% from $29,525 in the prior year period. Adjusted net income for the three months ended June 30, 2018 was $19,277, or $0.41 per diluted share, compared to adjusted net income of $13,148, or $0.29 per diluted share in the prior year period.

Adjusted revenues for the six months ended June 30, 2018 was $399,193, an increase of 23% from $325,308 in the prior year period. Adjusted EBITDA for the six months ended June 30, 2018 was $67,512, an increase of 22% from $55,363 in the prior year period. Adjusted net income for the six months ended June 30, 2018 was $36,931, or $0.78 per diluted share, compared to adjusted net income of $24,665, or $0.54 per diluted share in the prior year period.

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

Results of Operations

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Percent Change	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Percent Change
	(in thousands)			(in thousands)		
Revenues:						
Asset-based	$ 118,111	$ 98,959	19 %	$ 239,264	$ 193,121	24 %
Subscription-based	71,779	59,802	20 %	141,474	117,712	20 %
Total recurring revenues	189,890	158,761	20 %	380,738	310,833	22 %
Professional services and other revenues	11,226	8,656	30 %	18,389	14,370	28 %
Total revenues	201,116	167,417	20 %	399,127	325,203	23 %
Operating expenses:						
Cost of revenues	67,627	55,735	21 %	130,561	104,961	24 %
Compensation and benefits	80,210	64,996	23 %	163,750	130,528	25 %
General and administration	34,089	28,478	20 %	66,818	59,025	13 %
Depreciation and amortization	19,185	15,465	24 %	38,731	31,300	24 %
Total operating expenses	201,111	164,674	22 %	399,860	325,814	23 %
Income (loss) from operations	5	2,743	*	(733)	(611)	20 %
Other expense, net	(5,430)	(4,369)	24 %	(10,684)	(9,852)	8 %
Loss before income tax provision (benefit)	(5,425)	(1,626)	*	(11,417)	(10,463)	9 %
Income tax provision (benefit)	566	4,844	(88)%	(13,428)	9,142	*
Net income (loss)	(5,991)	(6,470)	(7)%	2,011	(19,605)	(110)%
Add: Net loss attributable to non-controlling interest	465	—	*	567	—	*
Net income (loss) attributable to Envestnet, Inc.	$ (5,526)	$ (6,470)	(15)%	$ 2,578	$ (19,605)	(113)%

*Not meaningful.

Three months ended June 30, 2018 compared to three months June 30, 2017

Revenues

Total revenues increased 20% from $167,417 in the three months ended June 30, 2017 to $201,116 in the three months ended June 30, 2018. The increase was primarily due to an increase in revenues from asset-based recurring and subscription-based recurring revenues of $19,152 and $11,977, respectively. Asset-based revenue was 59% of total revenue in the three months ended June 30, 2017 and 2018.

Asset-based recurring revenues

Asset-based recurring revenues increased 19% from $98,959 the three months ended June 30, 2017 to $118,111 in three months ended June 30, 2018. The increase was primarily due to the 2018 acquisition of FolioDynamix which comprised $12,639 of the increase as well as an increase in asset values applicable to our quarterly billing cycle in 2018, relative to the corresponding period in 2017. In the second quarter of 2018, revenues were also positively affected by new account growth and positive net flows of AUM/A.

The number of financial advisors with asset-based revenue on our technology platforms increased from 38,498 as of June 30, 2017 to 44,900 as of June 30, 2018 and the number of AUM/A client accounts increased from approximately 1,700,000 as of June 30, 2017 to approximately 2,200,000 as of June 30, 2018.

Subscription-based recurring revenues

Subscription-based recurring revenue increased 20% from $59,802 in the three months ended June 30, 2017 to $71,779 in the three months ended June 30, 2018. This increase was primarily due to the 2018 acquisition of FolioDynamix which comprised $4,412 of the total $7,552 Envestnet segment increase and Envestnet | Yodlee contributing an additional $4,425. The increase in Envestnet segment revenue is a result of continuing to add clients and selling additional services to existing clients. The increase in Envestnet | Yodlee revenue is primarily due to broad increases in revenue from existing customers.

Professional services and other revenues

Professional services and other revenues increased 30% from $8,656 in the three months ended June 30, 2017 to $11,226 in the three months ended June 30, 2018, primarily due to timing of new data analytics customer deployments and upgrades of existing data analytics customers, an overall increase in existing customer revenue attributable to the Envestnet segment.

Cost of revenues

Cost of revenues increased 21% from $55,735 in the three months ended June 30, 2017 to $67,627 in the three months ended June 30, 2018, primarily due to a corresponding increase in asset-based recurring revenues, the mix of such revenues, which is partially attributable to FolioDynamix, an increase in cost of revenues associated with subscription-based recurring revenues, as well as an increase in Advisor Summit related costs. As a percentage of total revenues, cost of revenues increased from 33% in the three months ended June 30, 2017 to 34% in the three months ended June 30, 2018.

Compensation and benefits

Compensation and benefits increased 23% from $64,996 in the three months ended June 30, 2017 to $80,210 in the three months ended June 30, 2018, primarily due to an increase in salaries, benefits and related payroll taxes of $8,407, primarily a result of the 2018 FolioDynamix acquisition as well as an increase in headcount to support organic growth. Also contributing to the growth in compensation and benefits were increases in incentive compensation of $3,395, non-cash compensation of $2,531, contract labor costs of $1,134 and severance expense of $711, and various other immaterial cost increases. As a percentage of total revenues, compensation and benefits increased from 39% in the three months ended June 30, 2017 and to 40% in the three months ended June 30, 2018.

General and administration

General and administration expenses increased 20% from $28,478 in the three months ended June 30, 2017 to $34,089 in the three months ended June 30, 2018, primarily due to increases in systems costs of $1,920, restructuring and transaction costs of $1,096, external data and research services of $839, marketing costs of $562, and occupancy costs of $549, partially offset by decreases in foreign currency charges of $461 and non-income tax expense of $387. As a percentage of total revenues, general and administration expenses remained consistent at 17% in the three months ended June 30, 2017 and 2018.

Depreciation and amortization

Depreciation and amortization increased 24% from $15,465 in the three months ended June 30, 2017 to $19,185 in the three months ended June 30, 2018, primarily due to increases in intangible asset amortization of $3,048, mainly attributable to the 2018 acquisition of FolioDynamix, and amortization of internally developed software of $605 driven by continued investment in our platforms. As a percentage of total revenues, depreciation and amortization expense increased from 9% in the three months ended June 30, 2017 to 10% in the three months ended June 30, 2018.

Income tax provision

	Three Months Ended June 30,	
	2018	2017
Loss before income tax provision	$ (5,425)	$ (1,626)
Income tax provision	566	4,844
Effective tax rate	(10.4)%	(297.9)%

For the three months ended June 30, 2018, our effective tax rate differed from the statutory rate primarily due to the valuation allowance the Company has placed on all US deferreds with the exception of indefinite lived intangibles, the impact of clarifying Base Erosion and Anti Abuse tax positions, additional accruals for uncertain tax positions as well as differences between the foreign tax rates and statutory US tax rate.

For the three months ended June 30, 2017, our effective tax rate differed from the statutory rate primarily due to the valuation allowance the Company had placed on all US deferreds with the exception of indefinite-lived intangibles and unrepatriated foreign earnings and profits, resulting in no benefit being recognized for the tax loss in the US.

Six months ended June 30, 2018 compared to six months June 30, 2017

Revenues

Total revenues increased 23% from $325,203 in the six months ended June 30, 2017 to $399,127 in the six months ended June 30, 2018. The increase was primarily due to an increase in revenues from asset-based recurring and subscription-based recurring revenues of $46,143 and $23,762, respectively. Asset-based revenue was 59% and 60% of total revenue in the six months ended June 30, 2017 and 2018, respectively.

Asset-based recurring revenues

Asset-based recurring revenues increased 24% from $193,121 the six months ended June 30, 2017 to $239,264 in the six months ended June 30, 2018. The increase was primarily due to the 2018 acquisition of FolioDynamix which comprised $25,433 of the increase as well as an increase in asset values applicable to our quarterly billing cycle in 2018, relative to the corresponding period in 2017. In the first two quarters of 2018, revenues were also positively affected by new account growth and positive net flows of AUM/A.

The number of financial advisors with asset-based revenue on our technology platforms increased from 38,498 as of June 30, 2017 to 44,900 as of June 30, 2018 and the number of AUM/A client accounts increased from approximately 1,700,000 as of June 30, 2017 to approximately 2,200,000 as of June 30, 2018.

Subscription-based recurring revenues

Subscription-based recurring revenue increased 20% from $117,712 in the six months ended June 30, 2017 to $141,474 in the six months ended June 30, 2018. This increase was primarily due to the 2018 acquisition of FolioDynamix which comprised $8,970 of the total $14,900 Envestnet segment increase and Envestnet | Yodlee contributing an additional $8,862. The increase in the Envestnet segment revenue is a result of continuing to add clients and selling additional services to existing clients. The increase in Envestnet | Yodlee revenue is primarily due to broad increases in revenue from existing customers.

Professional services and other revenues

Professional services and other revenues increased 28% from $14,370 in the six months ended June 30, 2017 to $18,389 in the six months ended June 30, 2018, primarily due to Envestnet | Yodlee and the timing of new data analytics customer deployments and upgrades of existing data analytics customers as well as an overall increase in existing customer revenue attributable to Envestnet segment.

Cost of revenues

Cost of revenues increased 24% from $104,961 in the six months ended June 30, 2017 to $130,561 in the six months ended June 30, 2018, primarily due to a corresponding increase in asset-based recurring revenues, the mix of such revenues, which is partially attributable to FolioDynamix, an increase in cost of revenues associated with subscription-based recurring revenues, as well as an increase in Advisor Summit related costs. As a percentage of total revenues, cost of revenues increased from 32% in the six months ended June 30, 2017 to 33% in the six months ended June 30, 2018. This increase is primarily attributable to a lower margin on revenues for FolioDynamix.

Compensation and benefits

Compensation and benefits increased 25% from $130,528 in the six months ended June 30, 2017 to $163,750 in the six months ended June 30, 2018, primarily due to an increase in salaries, benefits and related payroll taxes of $17,713, primarily a result of the 2018 FolioDynamix acquisition as well as an increase in headcount to support organic growth. Also contributing to the growth in compensation and benefits were increases in incentive compensation of $7,050, severance expense of $3,198, non-cash compensation of $3,568, contract labor costs of $2,090 and various other immaterial cost increases. As a percentage of total revenues, compensation and benefits increased from 40% in the six months ended June 30, 2017 to 41% in the six months ended June 30, 2018.

General and administration

General and administration expenses increased 13% from $59,025 in the six months ended June 30, 2017 to $66,818 in the six months ended June 30, 2018, primarily due to increases in systems costs of $3,228, external data and research services of $2,681, occupancy costs of $1,862, professional and legal fees of $1,020, and travel and entertainment expense of $714, partially offset by decreases in non-income tax expense of $1,264 and litigation related expense of $1,033. As a percentage of total revenues, general and administration expenses decreased from 18% in the six months ended June 30, 2017 to 17% in the six months ended June 30, 2018.

Depreciation and amortization

Depreciation and amortization expense increased 24% from $31,300 in the six months ended June 30, 2017 to $38,731 in the six months ended June 30, 2018, primarily due to increases in intangible asset amortization of $6,398, mainly attributable to the 2018 acquisition of FolioDynamix, and amortization of internally developed software of $1,139 driven by continued investment in our platforms. As a percentage of total revenues, depreciation and amortization expense remained consistent at 10% in the six months ended June 30, 2017 and 2018.

Income tax provision (benefit)

	Six Months Ended June 30,	
	2018	**2017**
Loss before income tax provision (benefit)	$ (11,417)	$ (10,463)
Income tax provision (benefit)	(13,428)	9,142
Effective tax rate	117.6 %	(87.4)%

For the six months ended June 30, 2018, our effective tax rate differed from the statutory rate primarily due to the release of the Company's valuation allowance as a result of additional deferred tax liabilities recorded with the acquisition of FolioDynamix, additional accruals for uncertain tax positions as well as differences between the foreign tax rates and statutory US tax rate.

For the six months ended June 30, 2017, our effective tax rate differed from the statutory rate primarily due to the valuation allowance the Company had placed on all US deferreds with the exception of indefinite-lived intangibles and unrepatriated foreign earnings and profits, resulting in no benefit being recognized for the tax loss in the US.

Segments

Business segments are generally organized around our service offerings. Financial information about each of our two business segments is contained in "Note 19 – Segment Information" to the condensed consolidated financial statements. Our business segments are as follows:

- *Envestnet* – a leading provider of unified wealth management software and services to empower financial advisors and institutions.
- *Envestnet | Yodlee* – a leading data aggregation and data analytics platform powering dynamic, cloud-based innovation for digital financial services.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Envestnet	$ 16,359	$ 15,811	$ 32,220	$ 29,322
Envestnet | Yodlee	(3,296)	(5,635)	(7,705)	(13,343)
Total segment income from operations	13,063	10,176	24,515	15,979
Nonsegment operating expenses	(13,058)	(7,433)	(25,248)	(16,590)
Other expense, net	(5,430)	(4,369)	(10,684)	(9,852)
Consolidated loss before income tax provision (benefit)	(5,425)	(1,626)	(11,417)	(10,463)
Income tax provision (benefit)	566	4,844	(13,428)	9,142
Consolidated net income (loss)	(5,991)	(6,470)	2,011	(19,605)
Add: Net loss attributable to non-controlling interest	465	—	567	—
Consolidated net income (loss) attributable to Envestnet, Inc.	$ (5,526)	$ (6,470)	$ 2,578	$ (19,605)

Envestnet

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

	Three Months Ended June 30,		Percent Change	Six Months Ended June 30,		Percent Change
	2018	2017		2018	2017	
	(in thousands)			(in thousands)		
Revenues:						
Asset-based	$ 118,111	$ 98,959	19 %	$ 239,264	$ 193,121	24 %
Subscription-based	33,023	25,471	30 %	65,608	50,708	29 %
Total recurring revenues	151,134	124,430	21 %	304,872	243,829	25 %
Professional services and other revenues	5,794	4,942	17 %	8,044	6,861	17 %
Total revenues	156,928	129,372	21 %	312,916	250,690	25 %
Operating expenses:						
Cost of revenues	62,914	52,402	20 %	121,937	98,473	24 %
Compensation and benefits	48,026	38,742	24 %	99,937	78,220	28 %
General and administration	18,603	16,056	16 %	36,323	31,893	14 %
Depreciation and amortization	11,026	6,361	73 %	22,499	12,782	76 %
Total operating expenses	140,569	113,561	24 %	280,696	221,368	27 %
Income from operations	$ 16,359	$ 15,811	3 %	$ 32,220	$ 29,322	10 %

Three months ended June 30, 2018 compared to three months June 30, 2017 for the Envestnet segment

Revenues

Total revenues increased 21% from $129,372 in the three months ended June 30, 2017 to $156,928 in the three months ended June 30, 2018. The increase was primarily due to an increase in asset-based revenues of $19,152 and an increase in subscription-based revenues of $7,552. Revenues from asset-based revenues decreased from 76% of total revenues in the three months ended June 30, 2017 to 75% of total revenues in the three months ended June 30, 2018.

Asset-based recurring revenues

Asset-based recurring revenues increased 19% from $98,959 in the three months ended June 30, 2017 to $118,111 in the three months ended June 30, 2018. The increase was primarily due to the 2018 acquisition of FolioDynamix which comprised $12,639 of the increase as well as an increase in asset values applicable to our quarterly billing cycle in 2018, relative to the corresponding period in 2017. In the second quarter of 2018, revenues were also positively affected by new account growth and positive net flows of AUM/A.

The number of financial advisors with asset-based revenue on our technology platforms increased from 38,498 as of June 30, 2017 to 44,900 as of June 30, 2018 and the number of AUM/A client accounts increased from approximately 1,700,000 as of June 30, 2017 to approximately 2,200,000 as of June 30, 2018.

Subscription-based recurring revenues

Subscription-based recurring revenues increased 30% from $25,471 in the three months ended June 30, 2017 to $33,023 in the three months ended June 30, 2018, primarily due to the 2018 acquisition of FolioDynamix which comprised $4,412 of the increase as well as continuing to add clients and selling additional services to existing clients.

Professional services and other revenues

Professional services and other revenues increased 17% from $4,942 in the three months ended June 30, 2017 to $5,794 in the three months ended June 30, 2018, primarily due to an overall increase in existing customer revenue attributable to Envestnet | Enterprise.

Cost of revenues

Cost of revenues increased 20% from $52,402 in the three months ended June 30, 2017 to $62,914 in the three months ended June 30, 2018, primarily due to the corresponding increase in asset-based recurring revenues, and the mix of such revenues, which is partially attributable to FolioDynamix as well as an increase in Advisor Summit related costs. As a percentage of total revenues, cost of revenues decreased from 41% in the three months ended June 30, 2017 to 40% in the three months ended June 30, 2018.

Compensation and benefits

Compensation and benefits increased 24% from $38,742 in the three months ended June 30, 2017 to $48,026 in the three months ended June 30, 2018, primarily due to an increase in salaries, benefits and related payroll taxes of $5,659, primarily a result of the 2018 acquisition of FolioDynamix and an increase in headcount to support organic growth. An increase in incentive compensation of $1,343, contract labor costs of $954, non-cash compensation of $862 and severance of $742 also contributed to the increase in compensation and benefits. As a percentage of total revenues, compensation and benefits increased from 30% in the three months ended June 30, 2017 to 31% in the three months ended June 30, 2018.

General and administration

General and administration expenses increased 16% from $16,056 in the three months ended June 30, 2017 to $18,603 in the three months ended June 30, 2018, primarily due to increases in systems development costs of $1,141 and external data and research services expenses of $1,095, marketing costs of $496 and occupancy costs of $441, partially offset by decreases in restructuring charges and transaction costs of $412 and non-income tax expense of $387. As a percentage of total revenues, general and administration expenses remained consistent at 12% in the three months ended June 30, 2017 and 2018.

Depreciation and amortization

Depreciation and amortization expense increased 73% from $6,361 in the three months ended June 30, 2017 to $11,026 in the three months ended June 30, 2018. The increase was primarily due to the addition of intangible assets related to the 2018 FolioDynamix acquisition. As a percentage of total revenues, depreciation and amortization expense increased from 5% in the three months ended June 30, 2017 to 7% in the three months ended June 30, 2018. The increase in depreciation and amortization expense as a percentage of total revenues is primarily due to the intangible asset amortization related to the acquisition of FolioDynamix.

Six months ended June 30, 2018 compared to six months June 30, 2017 for the Envestnet segment

Revenues

Total revenues increased 25% from $250,690 in the six months ended June 30, 2017 to $312,916 in the six months ended June 30, 2018. The increase was primarily due to an increase in asset-based revenues of $46,143 and an increase in subscription-based revenues of $14,900. Revenues from asset-based revenues decreased from 77% of total revenues in the six months ended June 30, 2017 to 76% in the six months ended June 30, 2018.

Asset-based recurring revenues

Asset-based recurring revenues increased 24% from $193,121 in the six months ended June 30, 2017 to $239,264 in the six months ended June 30, 2018. The increase was primarily due to the 2018 acquisition of FolioDynamix which comprised $25,433 of the increase as well as an increase in asset values applicable to our quarterly billing cycle in 2018, relative to the corresponding period in 2017. In the first two quarters of 2018, revenues were also positively affected by new account growth and positive net flows of AUM/A.

The number of financial advisors with asset-based revenue on our technology platforms increased from 38,498 as of June 30, 2017 to 44,900 as of June 30, 2018 and the number of AUM/A client accounts increased from approximately 1,700,000 as of June 30, 2017 to approximately 2,200,000 as of June 30, 2018.

Subscription-based recurring revenues

Subscription-based recurring revenues increased 29% from $50,708 in the six months ended June 30, 2017 to $65,608 in the six months ended June 30, 2018, primarily due to the 2018 acquisition of FolioDynamix which comprised $8,970 of the Envestnet segment increase as well as continuing to add clients and selling additional services to existing clients.

Professional services and other revenues

Professional services and other revenues increased 17% from $6,861 in the six months ended June 30, 2017 to $8,044 in the six months ended June 30, primarily due to an overall increase in existing customers.

Cost of revenues

Cost of revenues increased 24% from $98,473 in the six months ended June 30, 2017 to $121,937 in the six months ended June 30, 2018, primarily due to the corresponding increase in asset-based recurring revenues, and the mix of such revenues, which is partially attributable to FolioDynamix, as well as an increase in Advisor Summit related costs. As a percentage of total revenues, cost of revenues remained consistent at 39% in the six months ended June 30, 2017 and 2018.

Compensation and benefits

Compensation and benefits increased 28% from $78,220 in the six months ended June 30, 2017 to $99,937 in the six months ended June 30, 2018, primarily due to an increase in salaries, benefits and related payroll taxes of $12,452, primarily a result of the 2018 acquisition of FolioDynamix and an increase in headcount to support organic growth. An increase in severance of $3,055, incentive compensation of $2,958, contract labor costs of $1,766, and non-cash compensation of $1,242 also contributed to the increase in compensation and benefits. As a percentage of total revenues, compensation and benefits increased from 31% in the six months ended June 30, 2017 to 32% in the six months ended June 30, 2018.

General and administration

General and administration expenses increased 14% from $31,893 in the six months ended June 30, 2017 to $36,323 in the six months ended June 30, 2018, primarily due to increases in external data and research services expenses of $2,688, systems development costs of $1,919, and occupancy costs of $1,505, partially offset by decreases in non-income tax expense of $1,264. As a percentage of total revenues, general and administration expenses decreased from 13% in the six months ended June 30, 2017 to 12% in the six months ended June 30, 2018.

Depreciation and amortization

Depreciation and amortization expense increased 76% from $12,782 in the six months ended June 30, 2017 to $22,499 in the six months ended June 30, 2018. The increase was primarily due to the addition of intangible assets related to the 2018 FolioDynamix acquisition. As a percentage of total revenues, depreciation and amortization expense increased from 5% in the six months ended June 30, 2017 to 7% in the six months ended June 30, 2018. The increase in depreciation and amortization expense as a percentage of total revenues is primarily due to the intangible asset amortization related to the acquisition of FolioDynamix.

Envestnet | Yodlee

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

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Percent Change	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Percent Change
	(in thousands)			(in thousands)		
Revenues:						
Subscription-based	$ 38,756	$ 34,331	13 %	$ 75,866	$ 67,004	13 %
Professional services and other revenues	5,432	3,714	46 %	10,345	7,509	38 %
Total revenues	44,188	38,045	16 %	86,211	74,513	16 %
Operating expenses:						
Cost of revenues	4,713	3,333	41 %	8,624	6,488	33 %
Compensation and benefits	25,848	23,342	11 %	52,006	46,592	12 %
General and administration	8,764	7,901	11 %	17,054	16,258	5 %
Depreciation and amortization	8,159	9,104	(10)%	16,232	18,518	(12)%
Total operating expenses	47,484	43,680	9 %	93,916	87,856	7 %
Loss from operations	$ (3,296)	$ (5,635)	(42)%	$ (7,705)	$ (13,343)	(42)%

Three months ended June 30, 2018 compared to three months ended June 30, 2017 for the Envestnet | Yodlee segment

Revenues

Total revenues increased 16% from $38,045 in the three months ended June 30, 2017 to $44,188 in the three months ended June 30, 2018. The increase was primarily due to an increase in revenues from subscription-based recurring revenues of $4,425. Revenues from professional services and other increased by $1,718.

Subscription-based recurring revenues

Subscription-based recurring revenues increased 13% from $34,331 in the three months ended June 30, 2017 to $38,756 in the three months ended June 30, 2018, primarily due to broad increases in revenue from existing customers.

Professional services and other revenues

Professional services and other revenues increased 46% from $3,714 in the three months ended June 30, 2017 to $5,432 in the three months ended June 30, 2018, primarily due to timing of new data analytics customer deployments and upgrades of existing data analytics customers.

Cost of revenues

Cost of revenues increased 41% from $3,333 in the three months ended June 30, 2017 to $4,713 in the three months ended June 30, 2018, primarily driven by higher professional services and support revenues. Third party consulting and related services increased $612 due to new data analytics customer deployments. We also experienced an increase of $768 in hosting and payment processing services to support our overall revenue growth. As a percentage of total revenues, cost of revenues increased from 9% in the three months ended June 30, 2017 to 11% in the three months ended June 30, 2018. The increase in cost of revenues as a percentage of total revenues is primarily due to a higher increase in expense compared to lower growth in quarterly revenues.

Compensation and benefits

Compensation and benefits increased 11% from $23,342 in the three months ended June 30, 2017 to $25,848 in the three months ended June 30, 2018, primarily due to an increase in salaries, benefits and related payroll taxes of $1,727, as a result of increased headcount to support organic growth, an increase in incentive compensation of $1,012 and non-cash compensation expense of $215. These costs were partially offset by a decrease in short-term variable compensation of $550. As a percentage of total revenues, compensation and benefits decreased from 61% in the three months ended June 30, 2017 to 58% in the three months ended June 30, 2018. The decrease in compensation and benefits as a percentage of total revenues is primarily due to a higher revenue increase compared to lower growth in compensation and benefit expenses.

General and administration

General and administration expenses increased 11% from $7,901 in the three months ended June 30, 2017 to $8,764 in the three months ended June 30, 2018, primarily due to increases in restructuring charges and transaction costs of $403 marketing and promotional expenses of $300, and software purchase and maintenance of $288, partially offset by lower communications and research expenses of $261. As a percentage of total revenues, general and administration expenses decreased from 21% in the three months ended June 30, 2017 to 20% in the three months ended June 30, 2018.

Depreciation and amortization

Depreciation and amortization expense decreased 10% from $9,104 in the three months ended June 30, 2017 to $8,159 in the three months ended June 30, 2018, primarily due to a decrease in intangible asset amortization of $1,026 compared to the same period last year. As a percentage of total revenues, depreciation and amortization expense decreased from 24% in the three months ended June 30, 2017 to 18% in the three months ended June 30, 2018. The decrease in depreciation and amortization as a percentage of total revenues is primarily due to a higher revenue increase and a decrease in amortization expense.

Six months ended June 30, 2018 compared to six months ended June 30, 2017 for the Envestnet | Yodlee segment

Revenues

Total revenues increased 16% from $74,513 in the six months ended June 30, 2017 to $86,211 in the six months ended June 30, 2018. The increase was primarily due to an increase in revenues from subscription-based recurring revenues of $8,862. Revenues from professional services and other increased from 10% of total revenues in the six months ended June 30, 2017 to 12% in the six months ended June 30, 2018.

Subscription-based recurring revenues

Subscription-based recurring revenues increased 13% from $67,004 in the six months ended June 30, 2017 to $75,866 in the six months ended June 30, 2018, primarily due to broad increases in revenue from existing customers.

Professional services and other revenues

Professional services and other revenues increased 38% from $7,509 in the six months ended June 30, 2017 to $10,345 in the six months ended June 30, 2018, primarily due to timing of new data analytics customer deployments and upgrades of existing data analytics customers.

Cost of revenues

Cost of revenues increased 33% from $6,488 in the six months ended June 30, 2017 to $8,624 in the six months ended June 30, 2018, primarily due to increases in third party consulting and related services of $642 due to new data analytics customer deployments as well as hosting and payment processing services of $1,494 in support of our overall revenue growth. As a percentage of total revenues, cost of revenues increased from 9% in the six months ended June 30, 2017 to 10% in the six months ended June 30, 2018.

Compensation and benefits

Compensation and benefits increased 12% from $46,592 in the six months ended June 30, 2017 to $52,006 in the six months ended June 30, 2018, primarily due to an increase in salaries, benefits and related payroll taxes of $3,137, as a result of increased headcount to support organic growth, an increase in incentive and variable compensation of $2,090, and third party contract, employee training and recruiting costs totaling $277. As a percentage of total revenues, compensation and benefits decreased from 63% in the six months ended June 30, 2017 to 60% in the six months ended June 30, 2018. The decrease in compensation and benefits as a percentage of total revenues is primarily due to a higher revenue increase compared to lower growth in compensation and benefit expenses.

General and administration

General and administration expenses increased 5% from $16,258 in the six months ended June 30, 2017 to $17,054 in the six months ended June 30, 2018, primarily due to increases in restructuring charges and transaction costs of $603, systems development costs of $518, occupancy costs of $358, partially offset by a decrease in non-recurring legal and related expense of $1,033. As a percentage of total revenues, general and administration expenses decreased from 22% in the six months ended June 30, 2017 to 20% in the six months ended June 30, 2017. The decrease in general and administration as a percentage of total revenues is primarily due to a higher revenue increase compared to lower growth in general and administration expenses.

Depreciation and amortization

Depreciation and amortization expense decreased 12% from $18,518 in the six months ended June 30, 2017 to $16,232 in the six months ended June 30, 2018, primarily due to a decrease in intangible asset amortization of $2,254 compared to the same period last year. This decrease was partially offset by increase of $31 in depreciation expense compared to the same period last year. As a percentage of total revenues, depreciation and amortization expense decreased from 25% in the six months ended June 30, 2017 to 19% in the six months ended June 30, 2018. The decrease in depreciation and amortization as a percentage of total revenues is primarily due to a higher revenue increase and a decrease in amortization expense.

Nonsegment

The following table presents nonsegment operating expenses:

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Percent Change	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Percent Change
	(in thousands)			(in thousands)		
Operating expenses:						
Compensation and benefits	$ 6,336	$ 2,912	118 %	$ 11,807	$ 5,716	107 %
General and administration	6,722	4,521	49 %	13,441	10,874	24 %
Nonsegment operating expenses	$ 13,058	$ 7,433	76 %	$ 25,248	$ 16,590	52 %

Three months ended June 30, 2018 compared to three months ended June 30, 2017 for Nonsegment

Compensation and benefits

Compensation and benefits increased 118% from $2,912 in the three months ended June 30, 2017 to $6,336 in the three months ended June 30, 2018, primarily due to increases in non-cash compensation of $1,454, incentive compensation of $1,039 and salaries, benefits and related payroll taxes of $1,021.

General and administration

General and administration expenses increased 49% from $4,521 in the three months ended June 30, 2017 to $6,722 in the three months ended June 30, 2018, primarily due to increases in restructuring charges and transaction costs of $1,105, systems development costs of $490, professional and legal fees of $376.

Six months ended June 30, 2018 compared to six months ended June 30, 2017 for Nonsegment

Compensation and benefits

Compensation and benefits increased 107% from $5,716 in the six months ended June 30, 2017 to $11,807 in the six months ended June 30, 2018, primarily due to increases in non-cash compensation expense of $2,388, salaries, benefits and related payroll taxes of $2,332, and incentive compensation of $1,490.

General and administration

General and administration expenses increased 24% from $10,874 in the six months ended June 30, 2017 to $13,441 in the six months ended June 30, 2018, primarily due to increases in professional and legal fees of $1,088 and systems development costs of $790.

Non-GAAP Financial Measures

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

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

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

“Adjusted net income” represents net income (loss) before deferred revenue fair value adjustment, accretion on contingent consideration and purchase liability, non-cash interest expense, non-cash compensation expense, restructuring charges and transaction costs, severance, amortization of acquired intangibles, litigation related expense, foreign currency, non-income tax expense adjustment, loss allocation from equity method investment and loss attributable to non-controlling interest. Reconciling items are presented gross of tax, and a normalized tax rate is applied to the total of all reconciling items to arrive at adjusted net income.

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

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

- As measures of operating performance;
- For planning purposes, including the preparation of annual budgets;
- To allocate resources to enhance the financial performance of our business;
- To evaluate the effectiveness of our business strategies; and

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

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

We also present adjusted revenues, adjusted EBITDA, adjusted net income and adjusted net income per share as supplemental performance measures because we believe that they provide our Board of Directors, management and investors with additional information to assess our performance. Adjusted revenues provide comparisons from period to period by excluding the effect of purchase accounting on the fair value of acquired deferred revenue. Adjusted EBITDA 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, accretion on contingent consideration and purchase liability, severance, litigation related expense, pre-tax loss attributable to non-controlling interest, and changes in interest expense and interest income that are influenced by capital structure decisions and capital market conditions. Our management also believes it is useful to exclude non-cash stock-based compensation expense from adjusted EBITDA and adjusted net income because non-cash equity grants made at a certain price and point in time do not necessarily reflect how our business is performing at any particular time.

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

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

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

- Adjusted revenues, adjusted EBITDA, adjusted net income and adjusted net income per share do not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments;
- Adjusted revenues, adjusted EBITDA, adjusted net income and adjusted net income per share do not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted revenues, adjusted EBITDA, adjusted net income and adjusted net income per share do not reflect non-cash components of employee compensation;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized often will have to be replaced in the future, and adjusted EBITDA does not reflect any cash requirements for such replacements;
- Due to either net losses before income tax expense or the use of federal and state net operating loss carryforwards we had net cash paid of \$2,225 and \$275 for the six months ended June 30, 2018 and 2017, respectively. In the event that we begin to 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 revenues, adjusted EBITDA, adjusted net income and adjusted net income per share differently than we do, limiting their usefulness as a comparative measure.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)		(in thousands)	
Total revenues	$ 201,116	$ 167,417	$ 399,127	$ 325,203
Deferred revenue fair value adjustment	62	52	66	105
Adjusted revenues	$ 201,178	$ 167,469	$ 399,193	$ 325,308

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)		(in thousands)	
Net income (loss)	$ (5,991)	$ (6,470)	$ 2,011	$ (19,605)
Add (deduct):				
Deferred revenue fair value adjustment	62	52	66	105
Interest income	(374)	(29)	(784)	(50)
Interest expense	5,992	3,877	11,228	8,813
Accretion on contingent consideration and purchase liability	95	148	196	304
Income tax provision (benefit)	566	4,844	(13,428)	9,142
Depreciation and amortization	19,185	15,465	38,731	31,300
Non-cash compensation expense	10,476	7,945	18,971	15,403
Restructuring charges and transaction costs	3,345	2,249	5,937	5,627
Severance	1,049	338	3,861	663
Litigation related expense	—	52	—	1,033
Foreign currency	(339)	122	(571)	412
Non-income tax expense adjustment	27	414	(101)	1,163
Loss allocation from equity method investment	151	417	811	702
Loss attributable to non-controlling interest	515	101	584	351
Adjusted EBITDA	$ 34,759	$ 29,525	$ 67,512	$ 55,363

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)		(in thousands)	
Net income (loss)	$ (5,991)	$ (6,470)	$ 2,011	$ (19,605)
Income tax provision (benefit) [(1)]	566	4,844	(13,428)	9,142
Loss before income tax provision (benefit)	(5,425)	(1,626)	(11,417)	(10,463)
Add (deduct):				
Deferred revenue fair value adjustment	62	52	66	105
Accretion on contingent consideration and purchase liability	95	148	196	304
Non-cash interest expense	3,032	1,331	4,900	4,853
Non-cash compensation expense	10,476	7,945	18,971	15,403
Restructuring charges and transaction costs	3,345	2,249	5,937	5,627
Severance	1,049	338	3,861	663
Amortization of acquired intangibles	13,419	10,371	27,354	20,956
Litigation related expense	—	52	—	1,033
Foreign currency	(339)	122	(571)	412
Non-income tax expense adjustment	27	414	(101)	1,163
Loss allocation from equity method investment	151	417	811	702
Loss attributable to non-controlling interest	515	101	584	351
Adjusted net income before income tax effect	26,407	21,914	50,591	41,109
Income tax effect [(2)]	(7,130)	(8,766)	(13,660)	(16,444)
Adjusted net income	$ 19,277	$ 13,148	$ 36,931	$ 24,665
Basic number of weighted-average shares outstanding	45,247,331	43,855,479	44,963,735	43,513,074
Effect of dilutive shares:				
Options to purchase common stock	1,325,947	1,597,746	1,360,300	1,670,493
Unvested restricted stock units	643,319	473,892	832,170	551,227
Diluted number of weighted-average shares outstanding	47,216,597	45,927,117	47,156,205	45,734,794
Adjusted net income per share - diluted	$ 0.41	$ 0.29	$ 0.78	$ 0.54

(1) For the three months ended June 30, 2018 and 2017, the effective tax rate computed in accordance with US GAAP equaled (10.4%) and (297.9%), respectively. For the six months ended June 30, 2018 and 2017, the effective tax rate computed in accordance with US GAAP equaled 117.6% and (87.4%), respectively.

(2) Estimated normalized effective tax rates of 27% and 40% have been used to compute adjusted net income for the three and six months ended June 30, 2018 and 2017, respectively.

Note on Income Taxes: As of December 31, 2017 the Company had net operating loss carryforwards of $249,653 and $143,775 for federal and state income tax purposes, respectively, available to reduce future income subject to income taxes. As a result, the amount of actual cash taxes the Company pays for federal, state and foreign income taxes differs significantly from the effective income tax rate computed in accordance with U.S. GAAP, and from the normalized rate shown above.

The following tables set forth the reconciliation of revenues to adjusted revenues and income (loss) from operations to adjusted EBITDA based on our historical results for each segment for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30, 2018			
	Envestnet	Envestnet | Yodlee	Nonsegment	Total
	(in thousands)			
Revenues	$ 156,928	$ 44,188	$ —	$ 201,116
Deferred revenue fair value adjustment	60	2	—	62
Adjusted revenues	$ 156,988	$ 44,190	$ —	$ 201,178
Income (loss) from operations	$ 16,359	$ (3,296)	$ (13,058)	$ 5
Add:				
Deferred revenue fair value adjustment	60	2	—	62
Accretion on contingent consideration and purchase liability	95	—	—	95
Depreciation and amortization	11,026	8,159	—	19,185
Non-cash compensation expense	5,080	2,936	2,460	10,476
Restructuring charges and transaction costs	188	403	2,754	3,345
Non-income tax expense adjustment	27	—	—	27
Severance	1,049	—	—	1,049
Loss attributable to non-controlling interest	515	—	—	515
Adjusted EBITDA	$ 34,399	$ 8,204	$ (7,844)	$ 34,759

	Three Months Ended June 30, 2017			
	Envestnet	Envestnet | Yodlee	Nonsegment	Total
	(in thousands)			
Revenues	$ 129,372	$ 38,045	$ —	$ 167,417
Deferred revenue fair value adjustment	7	45	—	52
Adjusted revenues	$ 129,379	$ 38,090	$ —	$ 167,469
Income (loss) from operations	$ 15,811	$ (5,635)	$ (7,433)	$ 2,743
Add:				
Deferred revenue fair value adjustment	7	45	—	52
Accretion on contingent consideration and purchase liability	148	—	—	148
Depreciation and amortization	6,361	9,104	—	15,465
Non-cash compensation expense	4,218	2,721	1,006	7,945
Restructuring charges and transaction costs	600	—	1,649	2,249
Non-income tax expense adjustment	414	—	—	414
Severance	307	15	16	338
Litigation related expense	—	52	—	52
Other loss	—	—	18	18
Loss attributable to non-controlling interest	101	—	—	101
Adjusted EBITDA	$ 27,967	$ 6,302	$ (4,744)	$ 29,525

	Six Months Ended June 30, 2018			
	Envestnet	Envestnet | Yodlee	Nonsegment	Total
	(in thousands)			
Revenues	$ 312,916	$ 86,211	$ —	$ 399,127
Deferred revenue fair value adjustment	58	8	—	66
Adjusted revenues	$ 312,974	$ 86,219	$ —	$ 399,193
Income (loss) from operations	$ 32,220	$ (7,705)	$ (25,248)	$ (733)
Add (deduct):				
Deferred revenue fair value adjustment	58	8	—	66
Accretion on contingent consideration and purchase liability	196	—	—	196
Depreciation and amortization	22,499	16,232	—	38,731
Non-cash compensation expense	9,134	5,400	4,437	18,971
Restructuring charges and transaction costs	225	603	5,109	5,937
Non-income tax expense adjustment	(101)	—	—	(101)
Severance	3,478	383	—	3,861
Loss attributable to non-controlling interest	584	—	—	584
Adjusted EBITDA	$ 68,293	$ 14,921	$ (15,702)	$ 67,512

	Six Months Ended June 30, 2017			
	Envestnet	Envestnet | Yodlee	Nonsegment	Total
	(in thousands)			
Revenues	$ 250,690	$ 74,513	$ —	$ 325,203
Deferred revenue fair value adjustment	36	69	—	105
Adjusted revenues	$ 250,726	$ 74,582	$ —	$ 325,308
Income (loss) from operations	$ 29,322	$ (13,343)	$ (16,590)	$ (611)
Add:				
Deferred revenue fair value adjustment	36	69	—	105
Accretion on contingent consideration and purchase liability	304	—	—	304
Depreciation and amortization	12,782	18,518	—	31,300
Non-cash compensation expense	7,892	5,462	2,049	15,403
Restructuring charges and transaction costs	695	—	4,932	5,627
Non-income tax expense adjustment	1,163	—	—	1,163
Severance	423	224	16	663
Litigation related expense	—	1,033	—	1,033
Other loss	—	—	25	25
Loss attributable to non-controlling interest	351	—	—	351
Adjusted EBITDA	$ 52,968	$ 11,963	$ (9,568)	$ 55,363

Liquidity and Capital Resources

As of June 30, 2018, we had total cash and cash equivalents of $134,032 compared to $60,115 as of December 31, 2017. We plan to use existing cash as of June 30, 2018 and cash generated in the ongoing operations of our business to fund our current operations, capital expenditures and possible acquisitions or other strategic activity, and to meet our debt service obligations. If the cash generated in the ongoing operations of our business is insufficient to fund these requirements, we may be required to borrow under our revolving credit facility to fund our ongoing operations or to fund potential acquisitions or other strategic activities. The Company funded the FolioDynamix acquisition with a combination of cash on the Company's balance sheet, purchase consideration liabilities and borrowings under its revolving credit facility.

Cash Flows

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

	Six Months Ended June 30,	
	2018	2017
	(in thousands)	
Net cash provided by operating activities	$ 40,954	$ 35,187
Net cash used in investing activities	(208,536)	(14,832)
Net cash provided by (used in) financing activities	240,299	(45,500)
Effect of exchange rate on changes on cash	(572)	283
Net decrease in cash and cash equivalents	72,145	(24,862)
Cash, cash equivalents and restricted cash, end of period	134,260	29,730

Operating Activities

Net cash provided by operating activities for the six months ended June 30, 2018 was $40,954 as compared to net cash provided by operating activities of $35,187 for the same period in 2017. The increase was primarily due to net income of $2,011 in the six months ended June 30, 2018 compared to a net loss of $19,605 for the six months ended June 30, 2017, an increase in depreciation and amortization of $7,431, an increase in stock based compensation of $3,568, partially offset by the change in deferred income taxes of $23,617 and a net decrease in the change in operating assets and liabilities of $5,376.

Investing Activities

Net cash used in investing activities for the six months ended June 30, 2018 was $208,536 compared to net cash used in investing activities of $14,832 for the same period in 2017. The change was primarily a result of an increase in cash disbursements for acquisitions of $188,345 combined with an increase in capitalization of internally developed software of $4,971.

Financing Activities

Net cash provided by financing activities for the six months ended June 30, 2018 was $240,299 compared to net cash used in financing activities of $45,500 for the same period in 2017. The change was primarily the result of increases in proceeds from issuance of the Convertible Notes due 2023 of $345,000 and an increase in proceeds from borrowings on the revolving credit facility of $170,000, partially offset by increases in payments on the revolving credit facility of $251,168, and debt issuance costs paid of $9,488.

Critical Accounting Estimates

The preparation of financial statements and related disclosures in conformity with U.S. GAAP requires us to make judgments, assumptions, and estimates that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. “Note 2 – Summary of Significant Accounting Policies” to the consolidated financial statements in our most recent Form 10-K describes the significant accounting policies and methods used in the preparation of the consolidated financial statements and “Note 4 – Revenue” to the condensed consolidated financial statements in this accompanying Form 10-Q describes the updated accounting policies for revenue recognition, fees receivable including unbilled accounts receivable and deferred sales incentive compensation that were updated as a result of adopting ASC 606. Our critical accounting estimates, identified in Management’s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of our most recent Form 10-K and “Note 4 – Revenue” to the condensed consolidated financial statements in this accompanying Form 10-Q include, but not limited to, the discussion of estimates used for recognition of revenues, the determination of the period of benefit for deferred sales incentive commissions, purchase accounting, 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.

Commitments and Off-Balance Sheet Arrangements

Purchase Obligations and Indemnifications

The Company includes various types of indemnification and guarantee clauses in certain arrangements. These indemnifications and guarantees may include, but are not limited to, infringement claims related to intellectual property, direct or consequential damages and guarantees to certain service providers and service level requirements with certain customers. The type and amount of any potential indemnification or guarantee varies substantially based on the nature of each arrangement. The Company has experienced no previous claims and cannot determine the maximum amount of potential future payments, if any, related to such indemnification and guarantee provisions. The Company believes that it is unlikely it will have to make material payments under these arrangements and therefore has not recorded a contingent liability in the 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 is involved in legal proceedings arising in the ordinary course of its business. Legal fees and other costs associated with such actions are expensed as incurred. The Company will record a provision for these claims when it is both probable that a liability has been incurred and the amount of the loss, or a range of the potential loss, can be reasonably estimated. These provisions are reviewed regularly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information or events pertaining to a particular case. Legal proceedings accruals are recorded when and if it is determined that a loss is both probable and reasonably estimable. For litigation matters where a loss may be reasonably possible, but not probable, or is probable but not reasonably estimable, no accrual is established, but if the matter is material, it is subject to disclosures. The Company believes that liabilities associated with any claims, while possible, are not probable, and therefore has not recorded any accrual for any claims as of June 30, 2018. Further, while any possible range of loss cannot be reasonably estimated at this time, the Company does not believe that the outcome of any of these proceedings, individually or in the aggregate, would, if determined adversely to it, have a material adverse effect on its financial condition or business, although an adverse resolution of legal proceedings could have a material adverse effect on Envestnet's results of operations or cash flow in a particular quarter or year.

Leases

The Company rents office space under leases that expire at various dates through 2030. As of June 30, 2018, the Company's future minimum lease commitments under these operating leases totaled $105,124.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk

Our exposure to market risk is directly related to asset-based recurring revenues earned based upon a contractual percentage of AUM or AUA. In the three and six months ended June 30, 2018, 59% and 60%, respectively, of our revenues were derived from revenues based on the market value of AUM or AUA. We expect this percentage to vary over time. A decrease in the aggregate value of AUM or AUA may cause our revenue to decline and our net income to decrease.

Foreign currency risk

The expenses of our India subsidiary, which primarily consist of expenditures related to compensation and benefits, are paid using the Indian Rupee. We are directly exposed to changes in foreign currency exchange rates through the translation of these monthly expenditures into U.S. dollars. For the three and six months ended June 30, 2018, we estimate that a hypothetical 10% increase in the value of the Indian Rupee to the U.S. dollar would result in a decrease of $1,184 and $2,363, respectively, to pre-tax earnings and a hypothetical 10% decrease in the value of the Indian Rupee to the U.S. dollar would result in an increase of $969 and $1,934, respectively, to pre-tax earnings.

A portion of our revenues are billed in various foreign currencies. We are directly exposed to changes in foreign currency exchange rates through the translation of these monthly revenues into U.S. dollars. For the three and six months ended June 30, 2018, we estimate that a hypothetical 10% change in the value of various foreign currencies to the U.S. dollar would result in a corresponding increase or decrease of $335 and $1,068, respectively, to pre-tax earnings.

Interest rate risk

We are subject to market risk from changes in interest rates. The Company has a revolving credit facility that bears interest at LIBOR plus an applicable margin between 1.50 percent and 3.25 percent. As the LIBOR rates fluctuate, so too will the interest expense on amounts borrowed under the Credit Agreement. Interest charged on the revolving credit facility for the second quarter of 2018 was approximately 4.5%. As of June 30, 2018, there was $0 of revolving credit amounts outstanding under the Credit Agreement. The Company incurred interest expense of $1,561 and $4,174 for the three and six months ended June 30, 2018, respectively, related to the Credit Agreement. A sensitivity analysis performed on the interest expense indicated that a hypothetical 0.25% increase or decrease in our interest rate would increase or decrease interest expense on an annual basis by approximately $448.

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 June 30, 2018. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is 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 June 30, 2018, 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 three months ended June 30, 2018.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved in legal proceedings arising in the ordinary course of its business. Legal fees and other costs associated with such actions are expensed as incurred. The Company will record a provision for these claims when it is both probable that a liability has been incurred and the amount of the loss, or a range of the potential loss, can be reasonably estimated. These provisions are reviewed regularly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information or events pertaining to a particular case. Legal proceedings accruals are recorded when and if it is determined that a loss is both probable and reasonably estimable. For legal proceedings 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 June 30, 2018. Further, while any possible range of loss cannot be reasonably estimated at this time, the Company does not believe that the outcome of any of these proceedings, individually or in the aggregate, would, if determined adversely to it, have a material adverse effect on its financial condition or business, although an adverse resolution of legal proceedings could have a material adverse effect on Envestnet's results of operations or cash flow in a particular quarter or year.

Item 1A. Risk Factors

Investment in our securities involves risk. An investor or potential investor should consider the risks summarized under the caption “Risk Factors” in Part I, Item 1A of our 2017 Form 10-K, when making investment decisions regarding our securities. The risk factors that were disclosed in our 2017 Form 10-K have not materially changed since the date our 2017 Form 10-K was filed.

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

(c) Issuer Purchases of Equity Securities

	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publically announced plans or programs	Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs
April 1, 2018 through April 30, 2018	5,219	$ 53.60	—	1,956,390
May 1, 2018 through May 31, 2018	56,931	55.23	—	1,956,390
June 1, 2018 through June 30, 2018	28,650	57.14	—	1,956,390

On February 25, 2016, the Company announced that its Board of Directors had authorized a share repurchase program under which the Company may repurchase up to 2,000,000 shares of its common stock. The timing and volume of share repurchases will be determined by the Company’s management based on its ongoing assessments of the capital needs of the business, the market price of its common stock and general market conditions. No time limit has been set for the completion of the repurchase program, and the program may be suspended or discontinued at any time. The repurchase program authorizes the 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. As of June 30, 2018, 1,956,390 of shares could still be purchased under this program.

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
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1(1)	Certification of Chief Executive Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2(1)	Certification of Chief Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document *
101.SCH	XBRL Taxonomy Extension Schema Document *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document *
101.LAB	XBRL Taxonomy Extension Label Linkbase Document *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document *
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document *

(1) The material contained in Exhibit 32.1 and 32.2 is not deemed “filed” with the SEC and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language contained in such filing, except to the extent that the registrant specifically incorporates it by reference.

* Attached as Exhibit 101 to this Quarterly Report on Form 10-Q are the following materials, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017; (ii) the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2018 and 2017; (iii) the Condensed Consolidated Statement of Comprehensive Income (Loss) for the three and six months ended June 30, 2018 and 2017; (iv) the Condensed Consolidated Statement of Equity for the six months ended June 30, 2018; (v) the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017; (vi) Notes to Condensed Consolidated Financial Statements tagged as blocks of text.

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 August 8, 2018.

ENVESTNET, INC.

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

By: *<u>/s/ Peter H. D'Arrigo</u>*
Peter H. D'Arrigo
Chief Financial Officer
Principal Financial Officer

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

Exhibit 31.1

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Judson Bergman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended June 30, 2018, 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: August 8, 2018

/s/ Judson Bergman
Judson Bergman
Chairman and 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 June 30, 2018, 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: August 8, 2018

/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 June 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Judson Bergman, 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/ Judson Bergman

By: Judson Bergman
Chairman and Chief Executive Officer
(Principal Executive Officer)

Dated: August 8, 2018

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 June 30, 2018 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: August 8, 2018

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.