ENVESTNET, INC.
Form 10-Q
August 09, 2016
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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, 2016

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

35 East Wacker Drive, Suite 2400, Chicago, IL	60601
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code:

(312) 827-2800

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company

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

As of August 1, 2016, 42,811,027 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, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 38,522	$ 51,718
Fees and other receivables, net	42,549	46,756
Prepaid expenses and other current assets	30,497	13,239
Total current assets	111,568	111,713
Property and equipment, net	28,696	28,681
Internally developed software, net	11,490	9,897
Intangible assets, net	273,979	292,675
Goodwill	423,450	421,273
Deferred tax assets, net	—	2,688
Other non-current assets	11,764	9,322
Total assets	$ 860,947	$ 876,249
Liabilities and Equity		
Current liabilities:		
Accrued expenses and other liabilities	$ 67,213	$ 83,411
Accounts payable	15,941	10,420
Current portion of debt	6,064	6,064
Contingent consideration	2,763	2,537
Deferred revenue	15,272	15,089
Total current liabilities	107,253	117,521
Convertible notes	149,465	146,418
Term notes	135,303	138,335
Contingent consideration	894	1,506
Deferred revenue	16,115	14,378
Deferred rent and lease incentive	10,651	10,976
Deferred tax liabilities, net	816	—
Other non-current liabilities	7,823	6,288
Total liabilities	428,320	435,422
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; 55,101,301 and 53,925,415 shares issued as of June 30, 2016 and December 31, 2015, respectively; 42,770,725 and 41,979,126 shares outstanding as of June 30, 2016 and December 31, 2015, respectively	276	270
Additional paid-in capital	495,252	474,726
Accumulated deficit	(33,943)	(15,007)
Treasury stock at cost, 12,330,576 and 11,946,289 shares as of June 30, 2016 and December 31, 2015, respectively	(30,488)	(20,654)
Accumulated other comprehensive income	232	194
Total stockholders’ equity	431,329	439,529
Non-controlling interest	398	398
Total equity	431,727	439,927
Total liabilities and equity	$ 860,947	$ 876,249

See accompanying notes to unaudited Condensed Consolidated Financial Statements.

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Envestnet, Inc.

Condensed Consolidated Statements of Operations

(in thousands, except share and per share information)

(unaudited)

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Revenues:				
Assets under management or administration	$ 86,056	$ 83,819	$ 168,927	$ 164,896
Subscription and licensing	47,037	15,045	90,657	29,094
Professional services and other	8,615	3,799	13,945	5,127
Total revenues	141,708	102,663	273,529	199,117
Operating expenses:				
Cost of revenues	44,902	42,486	85,060	81,181
Compensation and benefits	57,664	31,956	120,280	63,491
General and administration	28,220	15,512	53,947	29,721
Depreciation and amortization	17,100	5,725	33,180	11,058
Restructuring charges	152	518	152	518
Total operating expenses	148,038	96,197	292,619	185,969
Income (loss) from operations	(6,330)	6,466	(19,090)	13,148
Other expense, net	(4,831)	(2,251)	(8,780)	(4,454)
Income (loss) before income tax provision	(11,161)	4,215	(27,870)	8,694
Income tax provision (benefit)	(3,218)	1,679	(8,934)	3,647
Net income (loss)	(7,943)	2,536	(18,936)	5,047
Add: Net income (loss) attributable to non-controlling interest	—	—	—	—
Net income (loss) attributable to Envestnet, Inc.	$ (7,943)	$ 2,536	$ (18,936)	$ 5,047
Net income (loss) per share attributable to Envestnet, Inc.:				
Basic	$ (0.19)	$ 0.07	$ (0.44)	$ 0.14
Diluted	$ (0.19)	$ 0.07	$ (0.44)	$ 0.13
Weighted average common shares outstanding:				
Basic	42,752,465	35,776,125	42,632,964	35,463,623

Diluted	42,752,465	37,654,074	42,632,964	37,504,028

See accompanying notes to unaudited Condensed Consolidated Financial Statements.

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Envestnet, Inc.

Condensed Consolidated Statements of Comprehensive Income

(in thousands)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income (loss) attributable to Envestnet, Inc.	$ (7,943)	$ 2,536	$ (18,936)	$ 5,047
Other comprehensive income, net of taxes				
Foreign currency translation loss	(299)	—	(314)	—
Unrealized gain on foreign currency contracts designated as cash flow hedges	175	—	352	—
Total other comprehensive income, net of taxes	(124)	—	38	—
Comprehensive income (loss), net of taxes	$ (8,067)	$ 2,536	$ (18,898)	$ 5,047

See accompanying notes to unaudited Condensed Consolidated Financial Statements.

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Envestnet, Inc.

Condensed Consolidated Statement of Equity

(in thousands, except share information)

(unaudited)

	Common Stock		Treasury Stock			Accumulated			
	Shares	Amount	Common Shares	Amount	Additional Paid-in Capital	Other Comprehensive Income	Accumulated Deficit	Non-controlling Interest	Tota Stoc Equ
Balance, December 31, 2015	53,925,415	$ 270	(11,946,289)	$ (20,654)	$ 474,726	$ 194	$ (15,007)	$ 398	$ 43
Exercise of stock options	248,288	1	—	—	2,278	—	—	—	2,
Issuance of common stock - vesting of restricted stock units	927,598	5	—	—	—	—	—	—	5
Stock-based compensation expense	—	—	—	—	18,065	—	—	—	18
Excess tax benefits from stock-based compensation expense	—	—	—	—	183	—	—	—	18
Purchase of treasury stock for stock-based minimum tax withholdings	—	—	(340,677)	(8,386)	—	—	—	—	(8
Common stock shares repurchased	—	—	(43,610)	(1,448)	—	—	—	—	(1
Foreign currency translation loss	—	—	—	—	—	(314)	—	—	(3
Unrealized gain on foreign currency	—	—	—	—	—	352	—	—	35

contracts designated as accounting hedges									
Net loss	—	—	—	—	—	—	(18,936)	—	(1
Balance, June 30, 2016	55,101,301	$ 276	(12,330,576)	$ (30,488)	$ 495,252	$ 232	$ (33,943)	$ 398	$ 43

See accompanying notes to unaudited Condensed Consolidated Financial Statements.

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Envestnet, Inc.

Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Six Months Ended June 30,	
	2016	2015
OPERATING ACTIVITIES:		
Net income (loss)	$ (18,936)	$ 5,047
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	33,180	11,058
Deferred rent and lease incentive	(325)	219
Provision for doubtful accounts	106	37
Deferred income taxes	3,504	808
Stock-based compensation expense	18,318	6,749
Excess tax benefits from stock-based compensation expense	(183)	(15,495)
Non-cash interest expense	4,031	4,697
Accretion on contingent consideration	120	651
Fair market value adjustment on contingent consideration	489	(1,902)
Loss on disposal of fixed assets	220	—
Changes in operating assets and liabilities, net of acquisitions:		
Fees and other receivables	4,242	(8,825)
Prepaid expenses and other current assets	(17,116)	2,028
Other non-current assets	(2,320)	(1,743)
Accrued expenses and other liabilities	(4,967)	(5,762)
Accounts payable	2,597	1,439
Deferred revenue	1,447	5,978
Other non-current liabilities	1,535	(330)
Net cash provided by operating activities	25,942	4,654
INVESTING ACTIVITIES:		
Purchase of property and equipment	(4,632)	(4,912)
Capitalization of internally developed software	(3,245)	(2,208)
Investment in private company	—	(1,500)
Purchase of ERS units	(1,500)	—
Acquisition of businesses, net of cash acquired	(18,394)	(21,712)
Net cash used in investing activities	(27,771)	(30,332)
FINANCING ACTIVITIES:		
Proceeds from borrowings on revolving credit facility	15,000	—
Payment on revolving credit facility	(15,000)	—
Payment of term notes	(4,000)	—
Proceeds from exercise of stock options	2,279	5,909
Excess tax benefits from stock-based compensation expense	183	15,495

Purchase of treasury stock for stock-based minimum tax withholdings		(9,834)		(6,555)
Issuance of restricted stock units		5		2
Net cash provided by (used in) financing activities		(11,367)		14,851
DECREASE IN CASH AND CASH EQUIVALENTS		(13,196)		(10,827)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		51,718		209,754
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	38,522	$	198,927
Supplemental disclosure of cash flow information - net cash paid (refunded) during the period for income taxes	$	(915)	$	791
Supplemental disclosure of cash flow information - cash paid during the period for interest		4,192		1,634
Supplemental disclosure of non-cash operating, investing and financing activities:				
Contingent consideration from a business acquisition		1,929		—
Stock and stock options issued in acquisition of business		—		8,930
Purchase liabilities included in accrued expenses		—		3,520

See accompanying notes to unaudited Condensed Consolidated Financial Statements.

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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 open-architecture wealth management services and technology to independent financial advisors and financial institutions. These services and related technology are provided via Envestnet’s wealth management software, Envestnet | PMC®, Envestnet | Tamarac™, Vantage Reporting Solution™, Envestnet | WMS™, Envestnet | Placemark™, Envestnet | Retirement Solutions, Envestnet | Yodlee™ and Envestnet | Finance Logix™.

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

- Envestnet | Advisor Suite™ empowers advisors to better manage client outcomes and strengthen their practice. Our software unifies the applications and services advisors use to manage their practice and advise their clients, including data aggregation; financial planning; capital markets assumptions; asset allocation guidance; research and due diligence on investment managers and funds; portfolio management, trading and rebalancing; multi custodial, aggregated performance reporting; and billing calculation and administration.

- Envestnet | PMC®, our Portfolio Management Consultants group, primarily engages in consulting services aimed at providing financial advisors with additional support in addressing their clients’ needs, as well as the creation of investment solutions and products. Envestnet | PMC’s investment solutions and products include managed account and multi manager portfolios, mutual fund portfolios and Exchange Traded Funds (“ETF”) portfolios. Envestnet | PMC offers Prima Premium Research, comprising institutional quality research and due diligence on investment managers, mutual funds, ETFs and liquid alternatives funds. Envestnet | PMC also offers Placemark Overlay Services which includes patented portfolio overlay and tax optimization services.

- Envestnet | Vantage™ software aggregates and manages investment data, provides performance reporting and benchmarking, giving advisors an in depth view of clients’ various investments, empowering advisors to give holistic, personalized advice and consulting.

- Envestnet | Advisor Now™ offers a private-labeled investor engagement technology enabling advisors to deliver a compelling digital wealth management experience to their clients.

- Envestnet | Finance Logix™ provides financial planning and wealth management software solutions to banks, broker-dealers and RIAs.

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

- Envestnet | Retirement Solutions ("ERS") offers a comprehensive suite of services designed specifically for retirement plan professionals. With our integrated technology, ERS addresses the regulatory, data, and investment needs of retirement plans and delivers the information holistically.

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

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

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

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2.Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company as of June 30, 2016 and for the three and six months ended June 30, 2016 and 2015 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, 2015 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, 2016 and the results of operations, equity and cash flows for the periods presented herein. The unaudited condensed consolidated balance sheet as of June 30, 2016 was derived from the Company’s audited financial statements for the year ended December 31, 2015 but does not include all disclosures, including notes required by accounting principles generally accepted in the United States of America (“GAAP”). The condensed consolidated financial statements include the accounts of Envestnet and its subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. Accounts denominated in a non-U.S. currency have been re-measured using the U.S. dollar as the functional currency. The results of operations for the three and six months ended June 30, 2016 are not necessarily indicative of the operating results to be expected for other interim periods or for the full fiscal year.

The unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. 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, 2015, filed with the SEC on February 29, 2016.

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 consolidated financial statements in conformity with GAAP. Areas requiring the use of management estimates relate to revenue recognition, valuations and assumptions used for impairment testing of goodwill, intangible and other long-lived assets, fair value of restricted stock and stock options issued, fair value of contingent consideration, realization of deferred tax assets, uncertain tax positions, 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.

Share repurchase program - 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, 2016, 1,956,390 shares could still be purchased under this program.

Recent Accounting Pronouncements - In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, “Revenue from Contracts with Customers,” which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled when products are transferred to customers.

The original effective date for ASU 2014-09 would have required the Company to adopt beginning in its first quarter of 2017. In July 2015, the FASB voted to amend ASU 2014-09 by approving a one-year deferral of the effective date as well as providing the option to early adopt the standard on the original effective date. Accordingly, the Company will adopt the standard in its first quarter of 2018. The new revenue standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company is currently evaluating the impact of the adoption of the new revenue standard on its consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, “Amendments to the Consolidation Analysis,” which amends the consolidation requirements in ASC 810. These changes became effective for the Company’s fiscal year beginning January 1, 2016. The adoption of this standard did not have a material impact on its condensed consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, “Simplifying the Presentation of Debt Issuance Costs,” which requires that debt issuance costs related to a recognized debt liability be presented as a reduction to the carrying amount of that debt liability, not as an

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asset. The Company adopted the guidance for the Company’s fiscal year beginning January 1, 2016 and resulted in decreases in current assets and current liabilities of $1,936 and decreases in non-current assets and non-current liabilities of $7,380 in the prior year.

In November 2015, the FASB issued ASU 2015-17, “Balance Sheet Classification of Deferred Taxes,” which requires entities with a classified balance sheet to present all deferred tax assets and liabilities as non-current. The updated guidance became effective under early adoption for the Company’s fiscal year beginning January 1, 2015 and resulted in a reclassification of $4,654 from current deferred tax assets to non-current deferred tax assets in the prior year.

In September 2015, the FASB issued ASU No. 2015-16, “Simplifying the Accounting for Measurement-Period Adjustments”. This standard requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. Entities were required to retrospectively apply adjustments made to provisional amounts recognized in a business combination. This standard is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. These changes became effective for the Company’s fiscal year beginning January 1, 2016 and have been reflected in these financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases”. This update amends the requirements for assets and liabilities recognized for all leases longer than twelve months. Lessees will be required to recognize a lease liability measured on a discounted basis, which is the lessee’s obligation to make lease payments arising from the lease, and a right-of-use 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. Early adoption of the standard is permitted. The Company is currently evaluating the potential impact of this guidance on our consolidated financial statements.

In March 2016, The FASB issued ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting”. This update is intended to reduce the cost and complexity of accounting for share-based payments; however, some changes may also increase volatility in reported earnings. Under the new guidance, all excess tax benefits and deficiencies will be recorded as an income tax benefit or expense in the income statement and excess tax benefits will be recorded as an operating activity in the statement of cash flows. The new guidance also allows withholding up to the maximum individual statutory tax rate without classifying the awards as a liability. The cash paid to satisfy the statutory income tax withholding obligation will be classified as a financing activity in the statement of cash flows. Lastly, the update allows forfeitures to be estimated or recognized when they occur. The requirements for the excess tax effects related to share-based payments at settlement must be applied on a prospective basis, and the other requirements under this standard are to be applied on a retrospective basis. This standard will be effective for financial statements issued by public companies for annual and interim periods beginning after December 15, 2016. The Company is currently evaluating the potential impact of this guidance on our consolidated financial statements.

3.Business Acquisitions

FinaConnect, Inc.

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

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

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

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

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

The estimated fair values of certain working capital balances, contingent consideration, deferred revenue, 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 internal valuations and are 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 contingent consideration, deferred revenue, deferred income taxes and intangible assets, and complete the acquisition accounting as soon as practicable but no later than January 31, 2017.

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

	Preliminary Estimate	Measurement Period Adjustments	Estimate as of June 30, 2016
Total tangible assets acquired	$ 136	$ 147	$ 283
Total liabilities assumed	(556)	83	(473)
Identifiable intangible assets	5,425	—	5,425
Goodwill	3,617	(230)	3,387
Total net assets acquired	$ 8,622	$ —	$ 8,622

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

	Amount	Weighted Average Useful Life in Years	Amortization Method
Customer list	$ 4,300	12	Accelerated
Proprietary technology	800	5	Straight-line
Trade names and domains	325	2	Straight-line
Total	$ 5,425		

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

Castle Rock Innovations, Inc.

On August 31, 2015, the Company acquired all of the outstanding shares of capital stock of Castle Rock Innovations, Inc., a Delaware corporation ("Castle Rock"). Castle Rock provides data aggregation and plan benchmark solutions to retirement plan record-keepers, broker-dealers, and advisors.

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The Company acquired Castle Rock with plans to combine the Castle Rock offering into ERS. Castle Rock's AXIS Retirement Plan Analytics Platform enables retirement plan fiduciaries to comply with 408(b)(2) and 404a-5 regulatory fee disclosure reporting requirements. The AXIS platform offers a single web-based interface and data repository to service the reporting needs of all types of retirement plans, and can be integrated with all record-keeping systems. AXIS also includes features for editing and generating reports for filings, reporting plan expenses, and comparing retirement plans and participants to those of their peers by industry, company size, and other characteristics. The goodwill arising from the acquisition represents the expected synergistic benefits of the transaction and the knowledge and experience of the workforce in place. The goodwill is not deductible for income tax purposes.

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

Cash consideration	$ 6,190
Contingent consideration liability	1,500
Cash acquired	(320)
Total	$ 7,370

In connection with the acquisition of Castle Rock, the Company is required to pay contingent consideration of 40% of the first annual post-closing period revenues minus $100, 35% of the second annual post-closing period revenue minus $100 and 30% of the third annual post-closing period revenue minus $100. The Company recorded a preliminary estimated liability as of the date of acquisition of $1,500, which represented the estimated fair value of contingent consideration on the date of acquisition and is considered a Level III fair value measurement as described in Note 8.

The preliminary estimated fair value of contingent consideration as of the date of acquisition was $1,500. This amount was the present value of an undiscounted liability of $1,600, applying a discount rate of 2.7%, 3.0%, and 3.3% to the first, second, and third post-closing periods, respectively. The first, second and third undiscounted payments are anticipated to be $714 on September 30, 2016, $603 on September 30, 2017, and $275 on September 30, 2018. During the three and six months ended June 30, 2016, the Company made a fair market value upward adjustment on the contingent consideration of $0 and $200, respectively and that adjustment is included in general and administration expense in the condensed consolidated statement of operations.

The estimated fair values of certain working capital balances, contingent consideration, 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 contingent consideration, deferred revenue, deferred income taxes and intangible assets, and complete the acquisition accounting as soon as practicable but no later than August 30, 2016.

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

	Preliminary Estimate	Measurement Period Adjustments	Estimate as of June 30, 2016
Total tangible assets acquired	$ 255	$ (112)	$ 143
Total liabilities assumed	(1,305)	—	(1,305)
Identifiable intangible assets	3,400	—	3,400
Goodwill	5,020	112	5,132
Total net assets acquired	$ 7,370	$ —	$ 7,370

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

	Amount	Weighted Average Useful Life in Years	Amortization Method
Customer list	$ 2,500	12	Accelerated
Proprietary technology	800	5	Straight-line
Trade names and domains	100	4	Straight-line
Total	$ 3,400		

For the three and six months ended June 30, 2016, acquisition related costs for Castle Rock totaled $41 and $85 respectively, and are included in general and administration expenses. The Company may incur additional acquisition related costs during 2016.

On September 1, 2015, ERS accepted the subscription of certain former owners of Castle Rock (the "Castle Rock Parties") to purchase a 6.5% ownership interest of ERS for $900. The Castle Rock Parties have the right to require ERS to repurchase units issued pursuant to the subscription in approximately 36 months after September 1, 2015 for the amount of $900. This purchase obligation is guaranteed by the Company and is reflected outside of permanent equity in the condensed consolidated balance sheet.

Yodlee, Inc.

On November 19, 2015, pursuant to the Agreement and Plan of Merger (the "Merger Agreement"), dated August 10, 2015, among Yodlee, the Company and Yale Merger Corp. ("Merger Sub"), a wholly owned subsidiary of Envestnet, Merger Sub was merged (the "Merger") with and into Yodlee with Yodlee continuing as a wholly owned subsidiary of Envestnet.

Yodlee, operating as Envestnet | Yodlee, is a leading data aggregation and data analytics platform powering dynamic, cloud-based innovation for digital financial services. Yodlee powers digital financial solutions for over 22 million paid subscribers and over 1,000 financial institutions, financial technology innovators and financial advisory firms. Founded in 1999, the company has built a network of over 15,000 data sources and been awarded 78 patents.

Under the terms of the Merger Agreement, Yodlee stockholders received $11.51 in cash and 0.1889 of a share of Envestnet common stock per Yodlee share. Based upon the volume weighted average price per share of Envestnet common stock for the ten consecutive trading days ending on (and including) November 17, 2015, the second trading day immediately prior to completion of the Merger, Yodlee stockholders received total consideration with a value of $17.49 per share.

Net cash consideration totaled approximately $375,658 and the Company issued approximately 5,974,000 shares of Envestnet common stock to Yodlee stockholders in the Merger. Holders of 577,829 shares of Yodlee common stock exercised their statutory appraisal rights under Delaware law. As of December 31, 2015 the Company recognized a liability in the amount of $10,061, which represented $17.49 in cash for each share of Yodlee common stock held by them. Although the Company believed the fair value of these shares did not exceed the consideration paid in the Acquisition, nevertheless, during the first quarter of 2016, the Company settled the appraisal claim in order to avoid the costs, uncertainties, disruptions and distraction of potential litigation. The difference between the liability as of December 31, 2015 and the settlement amount resulted in an increase to goodwill and total consideration paid.

The Company acquired Yodlee to enhance the Company's wealth management solutions with a deeply integrated data aggregation capability, expand the Company's addressable market by delivering the Company's wealth management solutions to Yodlee's clients and partners, and benefit from the revenue potential resulting from Yodlee's fast growing data analytics solutions.

The goodwill arising from the acquisition represents the expected synergistic benefits of the transaction, primarily related to an increase in future revenues as a result of potential cross selling opportunities and new lines of business, as well as lower future operating expenses. The goodwill is also related to the knowledge and experience of the workforce in place. The goodwill is not deductible for income tax purposes.

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

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Cash consideration	$ 375,658
Stock consideration	186,522
Attribution of the fair market value of replacement awards	4,318
Cash acquired	(63,234)
	$ 503,264

In connection with the Yodlee merger, the Company issued 1,052,000 shares of Envestnet restricted stock awards (“replacement awards”) in connection with unvested Yodlee employee equity awards. The Yodlee unvested stock options and unvested restricted stock units were canceled and exchanged for the replacement awards. In accordance with ASC 805, these awards are considered to be replacement awards. Exchanges of share options or other share-based payment awards in conjunction with a business combination are modifications of share-based payment awards in accordance with ASC Topic 718. As a result, a portion of the fair-value-based measure of Envestnet’s replacement awards are included in measuring the consideration transferred in the business combination. To determine the portion of the replacement award that is part of consideration transferred to acquire Yodlee, we have measured both the replacement awards granted by Envestnet and the historical Yodlee awards as of November 19, 2015 in accordance with ASC 718. The portion of the fair-value-based measure of the replacement award that is part of the consideration transferred in exchange for the acquisition of Yodlee, equals the portion of the Yodlee award that is attributable to pre-combination service. Envestnet is attributing a portion of the replacement awards to post-combination service as these awards require post-combination service. The fair value of the replacement awards was estimated to be $32,836 of which $4,318 was attributable to pre-acquisition services. The remaining fair value of $28,518 will be amortized over a period of 43 months subsequent to the acquisition date.

The estimated fair values of certain working capital balances, property and equipment, deferred revenue, deferred income taxes, unrecognized tax benefits, attribution of the fair market value of replacement awards, 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 November 18, 2016.

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

	Preliminary Estimate	Measurement Period Adjustments	Estimate as of June 30, 2016
Total tangible assets acquired	$ 33,815	$ 2,799	$ 36,614
Total liabilities assumed	(55,240)	163	(55,077)
Identifiable intangible assets	237,000	—	237,000
Goodwill	286,049	(1,322)	284,727
Total net assets acquired	$ 501,624	$ 1,640	$ 503,264

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

	Amount	Weighted Average Useful Life in Years	Amortization Method
Customer list	$ 178,000	12	Accelerated
Backlog	11,000	4	Accelerated
Proprietary technology	35,000	5	Straight-line
Trade names	13,000	6	Straight-line
Total	$ 237,000		

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The results of Envestnet | Yodlee's operations are included in the condensed consolidated statement of operations beginning November 20, 2015. Envestnet | Yodlee's revenues for the three and six month periods ended June 30, 2016 totaled $30,992 and $59,623, respectively. Envestnet | Yodlee's pre-tax loss for the three and six month periods ended June 30, 2016 totaled $11,165 and $25,023, respectively. The pre-tax losses include estimated acquired intangible asset amortization of $8,570 and $17,141 for the three and six month periods ended June 30, 2016, respectively.

For the three and six month periods ended June 30, 2016, acquisition related costs for Yodlee totaled $309 and $1,574, respectively, and are included in general and administration expenses. The Company will incur additional acquisition related costs during 2016.

Pro forma results for Envestnet, Inc. giving effect to the Finance Logix, Castle Rock and Yodlee acquisitions

The acquisition accounting for Finance Logix was completed in 2015 and therefore the business acquisition disclosure does not appear in Note 3. The following pro forma financial information presents the combined results of operations of Envestnet, Finance Logix, Castle Rock and Yodlee for the three and six month periods ended June 30, 2015. The pro forma financial information presents the results as if the acquisitions had occurred as of the beginning of 2015. The results of FinaConnect are not included in the pro forma financial information presented below as the FinaConnect acquisition was not considered material to the Company's results of operations.

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

Pro forma financial information is presented for informational purposes and is not indicative of the results of operations that would have been achieved if the acquisitions had taken place as of the beginning of 2015.

	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
Revenues	$ 129,427	$ 251,765
Net loss	(7,295)	(14,108)
Net loss per share:		
Basic	(0.17)	(0.34)
Diluted	(0.17)	(0.34)

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4. Property and Equipment

	Estimated Useful Life	June 30, 2016	December 31, 2015
Cost:			
Computer equipment and software	3 years	$ 48,577	$ 44,470
Office furniture and fixtures	7 years	6,120	5,785
Leasehold improvements	Shorter of the lease term or useful life of the asset	15,874	15,123
Other office equipment	5 years	756	683
		71,327	66,061
Less accumulated depreciation and amortization		(42,631)	(37,380)
Property and equipment, net		$ 28,696	$ 28,681

During the six months ended June 30, 2016, the Company retired property and equipment that were no longer in service in the amount of $2,306 recognized a loss of $220.

Depreciation and amortization expense was as follows:

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Depreciation and amortization expense	$ 4,048	$ 1,658	$ 7,407	$ 3,133

5. Internally Developed Software

Internally developed software consists of the following:

	Estimated Useful Life	June 30, 2016	December 31, 2015
Internally developed software	5 years	$ 28,354	$ 25,109
Less accumulated amortization		(16,864)	(15,212)
Internally developed software, net		$ 11,490	$ 9,897

Amortization expense was as follows:

	Three Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
Amortization expense	$ 857	$ 632	$ 1,652	$ 1,232

6.Goodwill and Intangible Assets

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

	Envestnet	Envestnet | Yodlee	Total
Balance at December 31, 2015	$ 135,224	$ 286,049	$ 421,273

FinaConnect acquisition	3,617	—