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 March 31, 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	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, 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 May 2, 2018, 45,215,812 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)

	March 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 43,965	$ 60,115
Fees receivable, net	66,614	51,522
Prepaid expenses and other current assets	24,961	19,470
Total current assets	135,540	131,107
Property and equipment, net	40,038	35,909
Internally developed software, net	25,080	22,174
Intangible assets, net	327,162	222,731
Goodwill	530,027	432,955
Other non-current assets	24,282	17,176
Total assets	$ 1,082,129	$ 862,052
Liabilities and Equity		
Current liabilities:		
Accrued expenses and other liabilities	$ 110,598	$ 105,897
Accounts payable	18,067	11,097
Contingent consideration	2,173	2,115
Deferred revenue	27,493	21,246
Total current liabilities	158,331	140,355
Convertible Notes	160,638	158,990
Revolving credit facility	261,168	81,168
Contingent consideration	690	666
Deferred revenue	9,883	12,047
Deferred rent and lease incentive	16,650	15,185
Deferred tax liabilities, net	1,291	969
Other non-current liabilities	16,538	15,102
Total liabilities	625,189	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; 58,116,581 and 57,450,056 shares issued as of March 31, 2018 and December 31, 2017, respectively; 45,200,949 and 44,700,641 shares outstanding as of March 31, 2018 and December 31, 2017, respectively	290	287
Additional paid-in capital	567,155	556,257
Accumulated deficit	(56,533)	(73,854)
Treasury stock at cost, 12,915,632 and 12,749,415 shares as of March 31, 2018 and December 31, 2017, respectively	(56,338)	(47,042)
Accumulated other comprehensive income	297	624
Total stockholders' equity	454,871	436,272
Non-controlling interest	1,169	398
Total equity	456,040	436,670
Total liabilities and equity	$ 1,082,129	$ 862,052

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 March 31, 2018	2017
Revenues:		
Asset-based	$ 121,153	$ 94,162
Subscription-based	69,695	57,910
Total recurring revenues	190,848	152,072
Professional services and other revenues	7,163	5,714
Total revenues	198,011	157,786
Operating expenses:		
Cost of revenues	62,934	49,226
Compensation and benefits	83,540	65,532
General and administration	32,729	30,547
Depreciation and amortization	19,546	15,835
Total operating expenses	198,749	161,140
Loss from operations	(738)	(3,354)
Other expense, net	(5,254)	(5,483)
Loss before income tax provision (benefit)	(5,992)	(8,837)
Income tax provision (benefit)	(13,994)	4,298
Net income (loss)	8,002	(13,135)
Add: Net loss attributable to non-controlling interest	102	—
Net income (loss) attributable to Envestnet, Inc.	$ 8,104	$ (13,135)
Net income (loss) per share attributable to Envestnet, Inc.:		
Basic	$ 0.18	$ (0.30)
Diluted	$ 0.17	$ (0.30)
Weighted average common shares outstanding:		
Basic	44,782,982	43,362,037
Diluted	47,145,560	43,362,037

See accompanying notes to unaudited Condensed Consolidated Financial Statements.

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Envestnet, Inc.

Condensed Consolidated Statements of Comprehensive Income (Loss)

(in thousands)

(unaudited)

	Three Months Ended March 31,	
	2018	2017
Net income (loss) attributable to Envestnet, Inc.	$ 8,104	$ (13,135)
Other comprehensive income (loss), net of taxes:		
Foreign currency translation gain (loss)	(327)	733
Comprehensive income (loss) attributable to Envestnet, Inc.	$ 7,777	$ (12,402)

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		Additional	Accumulated Other		Non-
	Shares	Amount	Common Shares	Amount	Paid-in Capital	Comprehensive Income	Accumulated Deficit	controll Interest
Balance, December 31, 2017	57,450,056	$ 287	(12,749,415)	$ (47,042)	$ 556,257	$ 624	$ (73,854)	$ 398
Adoption of ASC 606 (See Note 4)	—	—	—	—	—	—	9,217	—
Exercise of stock options	162,857	1	—	—	2,403	—	—	—
Issuance of common stock - vesting of restricted stock units	503,668	2	—	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	8,495	—	—	—
Purchase of treasury stock for stock-based tax withholdings	—	—	(166,217)	(9,296)	—	—	—	—
Issuance of non-controlling units in private company	—	—	—	—	—	—	—	873
Foreign currency translation loss	—	—	—	—	—	(327)	—	—
Net income (loss)	—	—	—	—	—	—	8,104	(102)
Balance, March 31, 2018	58,116,581	$ 290	(12,915,632)	$ (56,338)	$ 567,155	$ 297	$ (56,533)	$ 1,169

See accompanying notes to unaudited Condensed Consolidated Financial Statements.

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Envestnet, Inc.

Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Three Months Ended March 31,	
	2018	2017
OPERATING ACTIVITIES:		
Net income (loss)	$ 8,002	$ (13,135)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	19,546	15,835
Deferred rent and lease incentive amortization	385	182
Provision for doubtful accounts	461	82
Deferred income taxes	(17,923)	2,684
Stock-based compensation expense	8,495	7,458
Non-cash interest expense	3,209	3,522
Accretion on contingent consideration and purchase liability	101	156
Payments of contingent consideration	—	(357)
Loss allocation from equity method investment	660	285
Loss on disposal of fixed assets	10	—
Changes in operating assets and liabilities, net of acquisitions:		
Fees receivable, net	(10,191)	(545)
Prepaid expenses and other current assets	(3,665)	(3,932)
Other non-current assets	(2,461)	543
Accrued expenses and other liabilities	(17,404)	(8,758)
Accounts payable	1,594	865
Deferred revenue	7,056	2,619
Other non-current liabilities	1,372	1,140
Net cash provided by (used in) operating activities	(753)	8,644
INVESTING ACTIVITIES:		
Purchase of property and equipment	(4,988)	(4,007)
Capitalization of internally developed software	(4,599)	(2,091)
Acquisition of businesses	(178,583)	—
Net cash used in investing activities	(188,170)	(6,098)
FINANCING ACTIVITIES:		
Proceeds from borrowings on revolving credit facility	195,000	25,000
Payments on revolving credit facility	(15,000)	—

Payments of contingent consideration	—	(1,929)
Payments of definite consideration	—	(445)
Payment of Term Notes	—	(33,862)
Proceeds from exercise of stock options	2,404	1,900
Purchase of treasury stock for stock-based tax withholdings	(9,296)	(6,650)
Issuance of restricted stock units	2	3
Net cash provided by (used in) financing activities	173,110	(15,983)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(109)	324
DECREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(15,922)	(13,113)
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)	$ 46,193	$ 41,479
Supplemental disclosure of cash flow information - net cash paid (refunded) during the period for income taxes	$ 1,359	$ (716)
Supplemental disclosure of cash flow information - cash paid during the period for interest	1,974	1,414
Supplemental disclosure of non-cash operating, investing and financing activities:		
Purchase liabilities included in accrued expenses and other liabilities	13,172	—
Accrued payment to fund deferred compensation liability included in accounts payable	1,551	—
Purchase of fixed assets included in accrued expenses and other liabilities	1,331	471

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 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 18,000 investment products. Envestnet | Enterprise also sells data aggregation and reporting, data analytics, and digital advice capabilities to customers.

· Envestnet | TamaracTM 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 more than 4,000 vetted managed account products, multi-manager portfolios, fund strategist portfolios, as well as proprietary products, such as quantitative portfolios. PMC also offers an overlay service, which includes patented portfolio overlay and tax optimization services.

· Envestnet | YodleeTM 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 March 31, 2018 and for the three months ended March 31, 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 March 31, 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 months ended March 31, 2018 are not necessarily indicative of the operating results to be expected for other interim periods or for the full fiscal year.

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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:

	March 31,	
	2018	2017
Cash and cash equivalents	$ 43,965	$ 39,479
Restricted cash included in prepaid expenses and other current assets	2,228	2,000
Total cash, cash equivalents and restricted cash	$ 46,193	$ 41,479

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. Early adoption of the standard is permitted. The Company is currently evaluating the potential impact of this guidance on our consolidated financial statements.

In August 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 to 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

$2,228 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 three months ended March 31, 2018 and 2017, respectively. A reconciliation of restricted cash for each period is included within this footnote.

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

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.

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

Upfront consideration	$ 187,580
Purchase consideration liability	12,297
Working capital and other adjustments	(3,893)
Total	$ 195,984

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

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Envestnet, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

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:

Cash and cash equivalents	$ 4,876
Accounts receivable	4,962
Prepaid expenses and other current assets	1,600
Property and equipment, net	927
Other non-current assets	441
Identifiable intangible assets	117,700
Goodwill	97,248
Total assets acquired	227,754
Accounts payable	(5,358)
Accrued expenses	(7,173)
Deferred tax liability	(18,245)
Deferred revenue	(930)
Other non-current liabilities	(64)
Total liabilities assumed	(31,770)
Total net assets acquired	$ 195,984

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.

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

	Amount	Useful Life in Years	Amortization Method
Customer list	$ 95,000	12	Accelerated
Proprietary technology	18,000	5	Straight-line

Trade names and domains	4,700	6	Straight-line
Total	$ 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 month period ended March 31, 2018 totaled $17,454. FolioDynamix's pre-tax loss for the three month period ended March 31, 2018 totaled $4,726. The pre-tax loss includes estimated acquired intangible asset amortization of $4,311 for the three month period ended March 31, 2018.

For the three month period ended March 31, 2018, acquisition related costs for FolioDynamix totaled $427, and are included in general and administration expenses. The Company may incur additional acquisition related costs during 2018.

Envestnet, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

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 month period ended March 31, 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 March 31, 2017
Revenues	$ 167,217
Net loss	(19,160)
Net loss per share:	
Basic	(0.44)
Diluted	(0.44)

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.

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)

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Envestnet, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

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 March 31, 2018		
	As Reported	Without Adoption of ASC 606	Effect of Change Higher/(Lower)
Statements of Operations			
Revenues:			
Asset-based	$ 121,153	$ 124,753	$ (3,600)
Subscription-based	69,695	69,695	—
Total recurring revenues	190,848	194,448	(3,600)
Professional services and other revenues	7,163	7,200	(37)
Total revenues	198,011	201,648	(3,637)
Operating expenses:			
Cost of revenues	62,934	66,534	(3,600)
Compensation and benefits	83,540	83,667	(127)
Total operating expenses	198,749	202,476	(3,727)
Loss from operations	(738)	(828)	90
Net income	8,002	7,912	90
Net income attributable to Envestnet, Inc.	8,104	8,014	90

	At March 31, 2018		
	As Reported	Without Adoption of ASC 606	Effect of Change Higher/(Lower)
Balance Sheets			
Assets:			
Fees receivable, net	$ 66,614	$ 65,721	$ 893
Other non-current assets	24,282	18,840	5,442

Liabilities:			
Accounts payable	18,067	17,174	893
Deferred revenue, current	27,493	28,083	(590)
Deferred revenue, non-current	9,883	13,158	(3,275)
Equity:			
Accumulated deficit	(56,533)	(65,840)	9,307

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.

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Envestnet, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

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.

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.

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Envestnet, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

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

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

Professional services and other revenues

The Company earns professional services fees by providing contractual customized services and platform software development as well as initial implementation fees. Professional services contracts generally have fixed prices, and generally specify the deliverables in the contract. Certain professional services contracts are billed on a time and materials basis and revenue is recognized over time as the services are performed. For contracts billed on a 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 March 31,					
	2018			2017		
	Envestnet	Envestnet | Yodlee	Consolidated	Envestnet(1)	Envestnet | Yodlee(1)	Consolidated(1)
Revenues:						
Asset-based	$ 121,153					