

Financial Engines, Inc.  
Form 10-Q  
November 03, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended September 30, 2016

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
Commission File No. 001-34636

FINANCIAL ENGINES, INC.

(Exact name of registrant as specified in its charter)

Delaware 94-3250323  
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

1050 Enterprise Way, 3rd Floor

Sunnyvale, CA 94089

(Address of principal executive offices, Zip Code)

(408) 498-6000

(Registrant's telephone number, including area code)

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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 definition of “accelerated filer, large accelerated filer, and smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) 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 October 31, 2016, 61,908,938 shares of Common Stock, par value \$0.0001, were outstanding.

FINANCIAL ENGINES, INC.

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FOR THE QUARTER ENDED SEPTEMBER 30, 2016

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## PART I: FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements (Unaudited)

## FINANCIAL ENGINES, INC. AND SUBSIDIARIES

## Condensed Consolidated Balance Sheets

(Unaudited)

	December 31, 2015	September 30, 2016
(In thousands, except per share data)		
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 305,216	\$ 118,806
Short-term investments	39,936	—
Accounts receivable, net	71,287	95,344
Prepaid expenses	4,486	6,998
Other current assets	3,061	4,107
Total current assets	423,986	225,255
Property and equipment, net	20,385	25,885
Intangible assets, net	7,085	202,434
Goodwill	—	305,545
Long-term deferred tax assets	21,780	36,098
Direct response advertising, net	7,186	6,409
Other assets	2,158	2,255
Total assets	\$ 482,580	\$ 803,881
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 26,933	\$ 29,140
Accrued compensation	17,101	22,188
Deferred revenue	6,400	6,811
Dividend payable	3,615	3,713
Other current liabilities	1,169	4,077
Total current liabilities	55,218	65,929
Long-term deferred rent	9,485	12,176
Long-term tax liabilities	2,206	2,206
Other liabilities	524	448
Total liabilities	67,433	80,759
Contingencies (see Note 11)		
Stockholders' equity:		
Preferred stock, \$0.0001 par value - 10,000 authorized as of December 31, 2015 and	—	—

September 30, 2016; None issued or outstanding as of December 31, 2015 and

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September 30, 2016

Common stock, \$0.0001 par value - 500,000 authorized as of December 31, 2015 and

September 30, 2016; 52,972 and 63,185 shares issued and 51,695 and 61,908 shares

outstanding as of December 31, 2015 and September 30, 2016, respectively	5	6
Additional paid-in capital	461,139	762,561
Treasury stock, at cost (1,277 shares and 1,277 shares as of December 31, 2015 and		
September 30, 2016, respectively)	(47,637 )	(47,637 )
Retained Earnings	1,640	8,192
Total stockholders' equity	415,147	723,122
Total liabilities and stockholders' equity	\$482,580	\$ 803,881

See accompanying notes to the unaudited condensed consolidated financial statements.

# FINANCIAL ENGINES, INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Income

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2016	2015	2016
(In thousands, except per share data)				
Revenue:				
Professional management	\$70,225	\$102,641	\$206,501	\$281,518
Platform	7,501	7,035	23,126	21,306
Other	1,087	2,748	2,371	7,891
Total revenue	78,813	112,424	231,998	310,715
Costs and expenses:				
Cost of revenue	32,950	50,230	97,532	136,101
Research and development	8,753	9,599	26,537	27,833
Sales and marketing	15,526	21,743	46,248	61,892
General and administrative	6,280	11,189	19,720	35,598
Amortization of intangible assets, including internal use software	1,223	4,012	3,680	11,137
Loss on reacquired franchisee rights	—	4,092	—	4,092
Total costs and expenses	64,732	100,865	193,717	276,653
Income from operations	14,081	11,559	38,281	34,062
Interest income, net	119	149	263	133
Other expense, net	—	(185 )	(17 )	(645 )
Income before income taxes	14,200	11,523	38,527	33,550
Income tax expense	5,723	4,376	13,649	14,031
Net and comprehensive income	\$8,477	\$7,147	\$24,878	\$19,519
Dividends declared per share of common stock	\$0.07	\$0.07	\$0.21	\$0.21
Net income per share attributable to holders of common stock				
Basic	\$0.16	\$0.12	\$0.48	\$0.32
Diluted	\$0.16	\$0.11	\$0.47	\$0.32
Shares used to compute net income per share attributable to holders of common stock				
Basic	51,655	61,838	51,586	60,608
Diluted	52,934	63,001	52,939	61,657

See accompanying notes to the unaudited condensed consolidated financial statements.



## FINANCIAL ENGINES, INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended September 30,	
	2015	2016
	(In thousands)	
Cash flows from operating activities:		
Net income	\$24,878	\$19,519
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,484	6,670
Amortization of intangible assets	3,433	10,819
Stock-based compensation	19,196	24,307
Amortization of deferred sales commissions	1,217	1,244
Amortization and impairment of direct response advertising	4,132	3,547
Amortization of discount on short-term investments	(268 )	(5 )
Provision for doubtful accounts	733	689
Write-off of notes receivable	—	290
Deferred tax	(5,524 )	3,937
Loss on fixed asset disposal	—	200
Loss on sale of short-term investments	—	18
Excess tax benefit associated with stock-based compensation	(17,946 )	(9,587 )
Changes in operating assets and liabilities, net of acquired assets and liabilities:		
Accounts receivable	(6,546 )	(7,976 )
Prepaid expenses	(1,053 )	(998 )
Direct response advertising	(3,448 )	(2,778 )
Other assets	2,205	(908 )
Accounts payable	21,185	572
Accrued compensation	2,713	(988 )
Deferred revenue	1,595	274
Deferred rent	394	948
Other liabilities	—	(480 )
Net cash provided by operating activities	51,380	49,314
Cash flows from investing activities:		
Purchase of property and equipment	(4,063 )	(5,497 )
Capitalization of internal use software	(3,562 )	(5,295 )
Purchases of short-term investments	(159,555)	—
Maturities of short-term investments	135,000	—
Sale of short-term investments	—	39,923
Cash paid for acquisitions, net of cash acquired	—	(262,405)
Net cash used in investing activities	(32,180 )	(233,274)
Cash flows from financing activities:		
Payments on capital lease obligations	(86 )	(80 )
Payments related to business combinations	—	(1,771 )



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Excess tax benefit associated with stock-based compensation	17,946	9,587
Net share settlements for minimum tax withholdings	(616 )	(688 )
Repurchase of common stock	(38,455 )	—
Proceeds from issuance of common stock	8,328	3,371
Cash dividend payments	(10,354 )	(12,869 )
Net cash used in financing activities	(23,237 )	(2,450 )
Net decrease in cash and cash equivalents	(4,037 )	(186,410)
Cash and cash equivalents, beginning of period	126,564	305,216
Cash and cash equivalents, end of period	\$122,527	\$118,806
Supplemental cash flows information:		
Income taxes paid, net of refunds	\$1,325	\$2,927
Interest paid	\$9	\$10
Non-cash operating, investing and financing activities:		
Issuance of common stock related to acquisition	\$—	\$267,018
Unpaid purchases of property and equipment	\$207	\$760
Purchase of property and equipment with noncash tenant improvement allowance	\$—	\$1,952
Purchase of property and equipment under capital lease	\$216	\$—
Capitalized stock-based compensation for internal use software	\$319	\$569
Capitalized stock-based compensation for direct response advertising	\$78	\$68
Dividends declared but not yet paid	\$3,601	\$3,713

See accompanying notes to the unaudited condensed consolidated financial statements.

FINANCIAL ENGINES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 — Organization and Description of the Business

The Company

Financial Engines, Inc. (the Company) was incorporated on May 13, 1996 under the laws of the State of California and is headquartered in Sunnyvale, California. In February 2010, the Company was reincorporated under the laws of the State of Delaware.

Financial Engines is a leading provider of technology-enabled comprehensive financial advisory services, including financial planning, investment management and retirement income solutions, covering accounts including employer-sponsored defined contribution (DC) accounts (401(k), 457, and 403(b) plans), IRA accounts, and taxable accounts. The Company helps individuals, either online or with an advisor, develop a strategy to reach investing and retirement goals by offering a comprehensive set of services, including holistic, personalized plans for saving and investing, assessments of retirement income, and the option to meet face-to-face with a dedicated financial advisor at one of more than 125 advisor centers nationwide. The Company's services are primarily delivered in the workplace through relationships with leading plan providers and plan sponsors, and its clients are primarily individuals participating in DC retirement plans, as well as individuals outside the workplace. Clients are defined as individuals who utilize the Company's services, including professional management, online advice, education or guidance. Included in its services is the use of the Company's cost-efficient, proprietary and scalable advice technology platform.

The Company's investment advisory and management services are provided through its subsidiary, Financial Engines Advisors L.L.C., a federally registered investment adviser. In February 2016, we completed the acquisition of Kansas City 727 Acquisition LLC, a Delaware limited liability corporation, as well as its subsidiaries (collectively, "The Mutual Fund Store").

NOTE 2 — Basis of Presentation and Principles of Consolidation

Interim Financial Statements

The accompanying condensed consolidated financial statements and notes thereto are unaudited. These unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and applicable rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these unaudited interim condensed consolidated financial statements should be read in

conjunction with the consolidated financial statements and notes contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, as filed on February 19, 2016 with the SEC (the 2015 Annual Report). The Condensed Consolidated Balance Sheet as of December 31, 2015, included herein, was derived from the audited financial statements as of that date but does not include all disclosures including notes required by GAAP.

The unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments necessary for the fair presentation of the Company's Balance Sheets as of December 31, 2015 and September 30, 2016, the Company's Statements of Income for the three and nine months ended September 30, 2015 and 2016 and the Company's Statements of Cash Flows for the nine months ended September 30, 2015 and 2016. The results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for the year ending December 31, 2016.

The unaudited condensed consolidated financial statements include the accounts of the Company and all of its subsidiaries. Intercompany balances and transactions have been eliminated in consolidation. Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Comprehensive income is the same as net income for all periods presented.

#### Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates under different assumptions or conditions.

FINANCIAL ENGINES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

Segment Information

The Company's chief operating decision-maker, its chief executive officer, reviews the Company's operating results on an aggregate, consolidated basis and manages its operations as a single operating segment. In addition, all of the Company's operations and assets are based in the United States. Following The Mutual Fund Store acquisition discussed in Note 3, the Company re-examined its reporting and operating structure, and determined it continues to operate as a single operating and reportable segment.

Business Combinations

The Company accounts for business combinations under the acquisition method. The cost of an acquired company is assigned to the tangible and intangible assets acquired and the liabilities assumed on the basis of their fair values at the date of acquisition. The determination of fair values of assets acquired and liabilities assumed requires management to make estimates and use valuation techniques when market values are not readily available. Any excess of the aggregate purchase price over the fair value of net tangible and identifiable intangible assets acquired is allocated to goodwill. Transaction costs associated with business combinations are expensed as incurred.

Goodwill and Intangible Assets

Goodwill consists of the excess of the aggregate purchase price over the fair value of net tangible and identifiable intangible assets acquired by the Company. The carrying amount of goodwill is tested for impairment each year in the fourth quarter, or more frequently if facts and circumstances warrant a review, by using a two-step process. The Company has concluded that it has a single reporting unit for the purpose of goodwill impairment testing, and accordingly, all goodwill resides within a single reporting unit. The Company compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying value, goodwill of the reporting unit is not considered impaired. If the carrying value of the reporting unit exceeds its fair value, the Company would perform a measurement of the amount of impairment by comparing the carrying amount of the goodwill to a determination of the implied fair value of the goodwill. If the carrying amount of the goodwill is greater than the implied value, an impairment loss is recognized for the difference.

The Company does not have any indefinite lived intangible assets besides goodwill. Intangible assets with definite useful lives are recorded at cost less accumulated amortization. Intangible assets are reviewed for impairment whenever events or changes in circumstances may affect the recoverability of the net assets. Such reviews include an analysis of current results and take into consideration the undiscounted value of projected operating cash flows.

Intangible assets consist primarily of customer relationships, trademarks, trade names and internal use software. These intangible assets are acquired through business combinations or, in the case of capitalized software costs, are internally developed. Intangible assets are amortized on a straight-line basis over their estimated useful lives which range from less than 1 year to 20 years.

Long-Lived Assets

Long-lived assets, such as property, equipment, capitalized internal use software, direct response advertising and intangible assets subject to depreciation and amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or an asset group may not be recoverable. When such events or changes in circumstances occur, the Company assesses recoverability by determining whether the carrying value of such assets or asset group will be recovered through the undiscounted expected future cash flows. If the future undiscounted cash flows of the assets or asset group are less than their carrying amount, the Company would recognize an impairment loss based on any excess of the carrying amount of the asset or asset group over their fair value. Impairment charges related to long-lived assets were immaterial for the periods presented.

## Revenue Recognition

The Company recognizes revenue when all of the following conditions are met:

- There is persuasive evidence of an arrangement, as evidenced by a signed contract;
- Delivery has occurred or the service has been made available to the customer, which occurs upon completion of implementation and connectivity services, if applicable, and acceptance by the customer;

FINANCIAL ENGINES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

•The collectability of the fees is reasonably assured; and

•The amount of fees to be paid by the customer is fixed or determinable.

The Company generates its revenue through three primary sources: professional management, platform and other revenue.

**Professional Management.** The Company derives professional management revenue from client fees paid by or on behalf of both DC clients and individual investor clients who are enrolled in the Company's professional management service for the management of their account assets. The professional management service is a discretionary investment advisory service that can include comprehensive financial planning, investment management and retirement income services. The services are generally made available to prospective clients by written agreements with the plan provider, the plan sponsor and the plan participant in a DC plan, and by written agreements with individual investors; and may be provided on a subadvisory basis.

The Company's arrangements with clients generally provide for fees based on the value of assets the Company manages and are generally payable quarterly in arrears. Fees billed to clients are determined by the value of the assets in the client's account at specified dates with no judgments or estimates on the part of the Company, and are recognized as the services are performed. In certain instances, fees payable by plan participants are deferred for a specified period, and are waived if the plan participant cancels within the specified period. The Company recognizes revenue during certain of these fee deferral periods based on the estimate of the expected fee retention rate determined by historical experience of similar arrangements.

**Platform.** The Company derives platform revenue from recurring, subscription-based fees for access to its services, including professional management, online advice, education and guidance, and to a lesser extent, from setup fees. The arrangements generally provide for fees to be paid by the plan sponsor, plan provider or the DC plan itself, depending on the plan structure. Platform revenue is generally paid annually or quarterly in advance and recognized ratably over the term of the subscription period beginning after the completion of customer setup and data connectivity. Setup fees are recognized ratably over seven years.

**Other.** Other revenue includes fees for non-retirement account servicing, franchise royalty fees, reimbursement for a portion of marketing and client materials from certain subadvisory relationships and reimbursement for providing personal statements to prospective clients from a limited number of plan sponsors. Costs associated with these reimbursed printed fulfillment materials are expensed to cost of revenue as incurred. Franchise royalty fees are recognized as revenue as the services are performed by the franchisees based on specified percentages of the franchisees' advisory fees billed to their clients. Franchise royalty fees charged by the franchisees to their clients are primarily based on predetermined percentages of the market value of the AUM and are affected by changes in the AUM. The fees for non-retirement account servicing do not impact client fees paid for professional management, and are disclosed in the applicable Form ADV of the Company's advisory subsidiaries.

**Cost of Revenue**

Cost of revenue includes fees paid to plan providers for connectivity to plan and plan participant data, printed materials fulfillment costs for certain subadvisory relationships for which a portion are reimbursed, printed client materials, and employee-related costs for in-person dedicated advisor centers and call center advisors, operations,

implementations, technical operations, portfolio management and client service administration. Costs in this area are related primarily to payments to third parties, employee compensation and related expenses, facilities expenses, purchased materials and depreciation.

The expenses included in cost of revenue are shared across the different revenue categories, and the Company is not able to meaningfully allocate such costs between separate categories of revenue. Consequently, all costs and expenses applicable to the Company's revenue are included in the category cost of revenue in the Unaudited Condensed Consolidated Statements of Income. A portion of the amortization of intangible assets, including internal use software, relates to the Company's cost of revenue but is reflected together with all amortization of intangible assets as a separate line item in the Company's Unaudited Condensed Consolidated Statements of Income.

FINANCIAL ENGINES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

Recent Accounting Pronouncements

On May 28, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This new standard may also impact how the Company accounts for certain direct costs associated with its revenues. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard would become effective for the Company on January 1, 2018 and early adoption would be permitted on January 1, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

On February 25, 2016, FASB issued ASU No. ASU 2016-02, Leases, which requires that lessees recognize assets and liabilities for leases with lease terms greater than twelve months in the balance sheet. The ASU also requires improved disclosures to help users of financial statements better understand the amount, timing and uncertainty of cash flows arising from leases. The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. Adoption of the standard will require a modified retrospective approach. The Company is evaluating the effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures.

In March 2016, FASB issued ASU No. ASU 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting”. The ASU simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, forfeitures, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public entities, the ASU is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Although early adoption is permitted, the Company intends to adopt on January 1, 2017. The Company is evaluating the effect that ASU 2016-09 will have on its consolidated financial statements and related disclosures.

In August 26, 2016, FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.” ASU No. 2016-15 clarifies and provides specific guidance on eight cash flow classification issues that are not currently addressed by current GAAP and thereby reduces current diversity in practice. ASU No. 2016-15 is effective for public business entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2017, with early application permitted. This guidance is applicable to the Company's fiscal year beginning January 1, 2018. The Company is evaluating the impact that ASU No. 2016-15 will have on its consolidated financial statements.

NOTE 3 – Business Combinations



## Acquisition of The Mutual Fund Store

On February 1, 2016, the Company completed the acquisition of The Mutual Fund Store pursuant to an Agreement and Plan of Mergers, dated November 5, 2015, as amended. The acquisition is expected to enable the Company to expand its independent advisory services to defined contribution participants through comprehensive financial planning and the option to meet face-to-face with a dedicated financial advisor.

A portion of the purchase price was placed in an escrow fund for up to 14 months following the closing for the satisfaction of certain indemnification claims. Following the closing of the acquisition, investment funds affiliated with Warburg Pincus LLC, the former majority owner of The Mutual Fund Store, held approximately 13% of the Company's then-outstanding shares of common stock.

(In thousands, except shares and share price)

Cash consideration	\$246,001
Number of shares	9,885,889
Share price as of closing	\$27.01
Stock consideration	267,018
Total consideration	\$513,019

## FINANCIAL ENGINES, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

The total acquisition consideration has been allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition, including 21 franchised store agreements. The assets acquired consist primarily of customer relationships, accounts receivable, and trade names and trademarks. The intangible assets will be amortized based upon their estimated useful lives on a straight-lined basis. The table below represents the allocation of the total acquisition consideration to The Mutual Fund Store's tangible and intangible assets and liabilities based on the Company's estimate of their respective fair values:

(In thousands)	
Assets acquired	\$48,117
Identifiable intangible assets	191,020
Goodwill	293,628
Liabilities assumed	(19,746 )
Total consideration	\$513,019

A summary of intangible assets acquired and estimated useful lives is as follows:

	Weighted Average Estimated Life in	
(In thousands, except life in years)	Fair Value	Years
Customer relationships	\$ 151,300	19
Trademarks/Trade names	39,230	20
Franchise agreements	350	less than 1 year
Favorable leases, net	140	6
Total	\$ 191,020	

The purchase price allocation resulted in \$293.6 million of goodwill, of which approximately \$163.8 million is expected to be deductible for tax purposes. The goodwill arising from the acquisition represents the expected synergistic benefits of the transaction, including the benefit of operational leverage resulting from expanding the Company's independent advisory services, and the knowledge and experience of the acquired workforce.

The results of The Mutual Fund Store operations are included in the Unaudited Condensed Consolidated Statements of Income beginning February 1, 2016. The Mutual Fund Store's revenue for the eight-month period ended September

30, 2016 totaled \$73.7 million.

The Company incurred transaction costs totaling \$6.2 million during the nine months ended September 30, 2016 that were expensed as incurred in general and administrative expense in its Unaudited Condensed Consolidated Statements of Income. There were no transaction expenses incurred for the three months ended September 30, 2016 in connection with this acquisition.

The Mutual Fund Store had an existing compensation arrangement with its key executives for \$5.8 million. Fifty percent of the compensation payment, approximately \$2.9 million, was payable upon the closing of the acquisition and is reflected in the purchase consideration transferred at closing. The remaining fifty percent of the compensation payment, approximately \$2.9 million, requires the executives to be employed with the Company for agreed-upon service periods and therefore will be accounted for as post-combination compensation expense.

During the nine months ended September 30, 2016, the Company paid \$1.8 million for primarily previously withheld consideration for franchises acquired by The Mutual Fund Store prior to February 1, 2016.

Pro forma results for Financial Engines, Inc. giving effect to The Mutual Fund Store acquisition (Unaudited)

The following unaudited pro forma financial information presents the combined results of operations of Financial Engines and The Mutual Fund Store for the three and nine months ended September 30, 2015 and 2016 as if the acquisition had occurred as of January 1, 2015.

## FINANCIAL ENGINES, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

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

Unaudited pro forma financial information is presented for informational purposes and is not indicative of the results of operations that would have been achieved if the acquisition had occurred as of January 1, 2015.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2016	2015	2016
	(In thousands, except per share data)			
Revenue	\$104,817	\$112,424	\$306,397	\$318,797
Net income <sup>(1)</sup>	\$11,450	\$8,079	\$31,508	\$27,877
Net income per share:				
Basic	\$0.19	\$0.13	\$0.51	\$0.45
Diluted	\$0.18	\$0.13	\$0.50	\$0.44

(1) Disclosure of the specific net income of The Mutual Fund Store subsequent to the acquisition, for the periods presented, is impracticable as the operations of The Mutual Fund Store are integrated with the Company's operations and not separately tracked.

## Acquisition of Franchises April 2016

In April 2016, the Company completed the acquisition of the seven franchises listed below for a total aggregate cash consideration of \$14.4 million.

THE MUTUAL FUND STORE® - Charleston  
 THE MUTUAL FUND STORE® - Providence  
 THE MUTUAL FUND STORE® - Pittsburg  
 THE MUTUAL FUND STORE® - Philadelphia  
 THE MUTUAL FUND STORE® - Miami  
 THE MUTUAL FUND STORE® - Toledo  
 THE MUTUAL FUND STORE® - Columbia

The acquisitions are expected to enable the Company to have greater oversight and control over the operations of these advisor center locations. The preliminary purchase price allocation is subject to certain closing and post-closing adjustments. Approximately \$0.8 million in holdback amounts have been reserved with respect to indemnification

claims on behalf of the Company, which are expected to be paid in April 2017.

The total acquisition consideration has been preliminarily allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. The assets acquired consist primarily of intangible customer relationships and reacquired franchisee rights. The intangible assets will be amortized based upon their estimated useful lives on a straight-lined basis. The table below represents a preliminary allocation of the aggregate acquisition consideration based on the Company's preliminary estimate of their respective fair values:

(In thousands)	
Assets acquired	\$698
Identifiable intangible assets	6,527
Goodwill	7,319
Liabilities assumed	(95 )
Total consideration	\$14,449

FINANCIAL ENGINES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

Upon completion of the fair value assessment after the acquisitions, it is anticipated that the final purchase price allocation could differ from the preliminary allocation outlined above. Any changes to the initial estimates of the fair value of assets and liabilities that are made within the measurement period, which will not exceed one year, will be recorded as adjustments to those assets and liabilities and residual amounts will be allocated to goodwill.

A summary of intangible assets acquired and estimated useful lives is as follows:

	Estimated	Weighted Average Life in
(In thousands, except life in years)	Fair Value	Years
Customer relationships	\$ 5,842	15
Reacquired franchisee rights	685	9
Total	\$ 6,527	

The preliminary purchase price allocations resulted in \$7.3 million of goodwill, all of which is expected to be deductible for tax purposes. The goodwill arising from the acquisition represents the expected synergistic benefits of the transaction, including the benefit of operational leverage and the knowledge and experience of the acquired workforce.

The Company incurred transaction costs totaling \$0.1 million during the nine months ended September 30, 2016 that were expensed as incurred in general and administrative expense in its Unaudited Condensed Consolidated Statements of Income. There were no transaction expenses incurred for the three months ended September 30, 2016 in connection with these acquisitions.

Acquisition of Franchises July and August 2016

In July and August 2016, the Company completed the acquisition of the six franchises associated with the six locations listed below for a total aggregate cash consideration of \$8.1 million.

THE MUTUAL FUND STORE® - Grand Rapids  
 THE MUTUAL FUND STORE® - Tuscon  
 THE MUTUAL FUND STORE® - National III  
 THE MUTUAL FUND STORE® - Springfield, MA  
 THE MUTUAL FUND STORE® - Memphis

THE MUTUAL FUND STORE® - Madison

The acquisitions are expected to enable the Company to have greater oversight and control over the operations of these advisor center locations. The preliminary purchase price allocation is subject to certain closing and post-closing adjustments. Approximately \$0.3 million in holdback amounts have been reserved with respect to indemnification claims on behalf of the Company, which are expected to be paid in July and August 2017.

The total acquisition consideration has been preliminarily allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. The assets acquired consist primarily of intangible customer relationships and reacquired franchisee rights. The intangible assets will be amortized based upon their estimated useful lives on a straight-lined basis. The table below represents a preliminary allocation of the aggregate acquisition consideration based on the Company's preliminary estimate of their respective fair values:

(In thousands)	
Assets acquired	\$514
Identifiable intangible assets	3,075
Goodwill	4,598
Liabilities assumed	(58 )
Total consideration	\$8,129

## FINANCIAL ENGINES, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

Upon completion of the fair value assessment after the acquisitions, it is anticipated that the final purchase price allocation will differ from the preliminary allocation outlined above. Any changes to the initial estimates of the fair value of assets and liabilities that are made within the measurement period, which will not exceed one year, will be recorded as adjustments to those assets and liabilities and residual amounts will be allocated to goodwill.

A summary of intangible assets acquired and estimated useful lives is as follows:

	Estimated Fair Value	Weighted Average Life in Years
(In thousands, except life in years)		
Customer relationships	\$ 2,533	14
Reacquired franchisee rights	542	8
Total	\$ 3,075	

The preliminary purchase price allocations resulted in \$4.6 million of goodwill, all of which is expected to be deductible for tax purposes. The goodwill arising from the acquisition represents the expected synergistic benefits of the transaction, including the benefit of operational leverage and the knowledge and experience of the acquired workforce.

As a result of the acquisitions of two of the franchises, the Company reacquired the franchisee rights at a purchase price which was pre-determined per the franchise agreement contracts and effectively settled its pre-existing royalty contracts. The Company engaged a third-party specialist to assist in assessing the fair value of these rights and determined that the reacquired right had a fair value less than the price paid. The amount by which the contract was unfavorable to the Company when compared to current market transactions for similar items resulted in a loss of \$4.1 million for the three months ended September 30, 2016, and was accounted for as a separate transaction from the business combination. The loss of \$4.1 million was cash paid in addition to the \$8.1 million in cash consideration for these acquisitions for total cash paid of \$12.2 million.

The Company incurred transaction costs totaling \$0.1 million during the three and nine months ended September 30, 2016 that were expensed as incurred in general and administrative expense in its Unaudited Condensed Consolidated Statements of Income. The Company wrote off \$0.2 million in notes receivable as of June 30, 2016 related to these franchise acquisitions as they were deemed to be uncollectable.



Subsequent to these acquisitions, the Company continues to operate eight franchises as of September 30, 2016, which were acquired in October 2016 (see Note 12).

NOTE 4 — Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less from date of purchase to be cash equivalents. Cash equivalents are comprised of cash held primarily in money market accounts. Cash and cash equivalents consist of the following:

	December 31, 2015	September 30, 2016
	(In thousands)	
Cash	\$34,063	\$ 68,048
Money market fund	271,153	50,758
Total cash and cash equivalents	\$305,216	\$ 118,806

NOTE 5 — Short-Term Investments

Short-term investments consisted of U.S. Treasury securities. As of December 31, 2015, short-term investments of \$39.9 million were held as available-for-sale and recorded on the balance sheet at fair market value. In January 2016, the Company sold the total short-term investments of \$39.9 million. Realized and unrealized gains or losses, net of tax, have been immaterial in every period presented.

## FINANCIAL ENGINES, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

## NOTE 6 — Concentration of Credit Risk and Fair Value of Financial Instruments

The Company measures and reports its investments in money market funds at fair value on a recurring basis, which approximates their carrying value due to the short period of time to maturity, and reports its short-term investments in U.S. Treasury securities at fair value at each reporting period. There have been no changes in the Company's valuation techniques during the three and nine months ended September 30, 2016. Both the money market funds and U.S. Treasury securities are classified as Level 1.

The following table summarizes the Company's financial assets measured at fair value on a recurring basis:

	As of December 31, 2015				As of September 30, 2016			
			Significant				Significant	
			Other	Other			Other	Other
	Quoted Prices in		Observable	Unobservable	Quoted Prices in		Observable	Unobservable
	Active Market		Inputs	Inputs	Active Market		Inputs	Inputs
	for Identical		(Level	(Level 3)	for Identical		(Level	(Level 3)
Total Fair	Assets		2) (2)	(3)	Total Fair	Assets	2) (2)	(3)
Value	(Level 1) (1)				Value	(Level 1) (1)		
(In thousands)								
<b>Assets:</b>								
<b>Money Market</b>								
Funds	\$271,153	\$ 271,153	\$ —	\$ —	\$50,758	\$ 50,758	\$ —	\$ —
<b>U.S. Treasury</b>								
Securities	\$39,936	\$ 39,936	\$ —	\$ —	\$—	\$ —	\$ —	\$ —

- (1) Level 1: Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- (2) Level 2: Inputs reflect quoted prices for identical assets or liabilities in markets that are not active; quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the assets or liabilities; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- (3) Level 3: Unobservable inputs reflecting the Company's own assumptions incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash, cash equivalents and accounts receivable. The Company maintains its cash and cash equivalents primarily in highly-rated taxable money market funds located in the United States, in which deposits may exceed

federal deposit insurance limits. The fair value of the Company's accounts receivable and accounts payable approximates the carrying amount due to their short duration.

The Company's customers are concentrated in the United States. The Company performs ongoing credit evaluations of its customers and does not require collateral. The Company reviews the need for allowances for potential credit losses and such losses have been insignificant to date.

Significant customer information is as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2015		September 30, 2016	
Percentage of revenue:				
Aon Hewitt Financial Advisors, LLC	10	%	8	%
	10	%	8	%

#### NOTE 7 — Goodwill and Intangible Assets

Goodwill as of December 31, 2015 and September 30, 2016 consisted of the following:

(In thousands)	
Balance as of December 31, 2015	\$—
The Mutual Fund Store acquisition	293,628
April 2016 franchise acquisitions	7,319
July and August 2016 franchise acquisitions	4,598
Balance as of September 30, 2016	\$305,545

## FINANCIAL ENGINES, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

Intangible assets as of December 31, 2015 and September 30, 2016 consisted of the following:

		December 31, 2015			September 30, 2016		
		(In thousands)					
	Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(years)	Amount	Amount	Amount	Amount	Amount	Amount
Customer relationships	14 - 19	\$—	\$ —	\$ —	\$159,675	\$ 5,543	\$ 154,132
Franchise agreements and reacquired franchisee rights	<1 - 9	—	—	—	1,577	425	1,152
Favorable leases, net	6	—	—	—	140	16	124
Trademarks/Trade names	20	—	—	—	39,230	1,317	37,913
Internal use software	2 - 3	53,398	46,313	7,085	59,262	50,149	9,113
Total		\$53,398	\$ 46,313	\$ 7,085	\$259,884	\$ 57,450	\$ 202,434

Amortization expense related to intangible assets was as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2016	September 30, 2015	September 30, 2016
	(In thousands)			
Customer relationships	\$—	\$2,129	\$—	\$5,543
Franchise agreements and reacquired franchisee rights	—	81	—	425
Favorable leases, net	—	6	—	16
Trademarks/Trade names	—	494	—	1,317
Internal use software <sup>(1)</sup>	1,223	1,302	3,680	3,836
Amortization expense	\$1,223	\$4,012	\$3,680	\$11,137

(1) For the three months ended September 30, 2015 and 2016, internal use software amortization included approximately \$0.1 million and \$0.1 million of stock-based compensation expense, respectively. For the nine months ended September 30, 2015 and 2016, internal use software amortization included approximately \$0.2 million and \$0.3 million of stock-based compensation expense, respectively.

The following table presents the estimated future amortization of intangible assets as of September 30, 2016:

(In thousands)	
Years ending December 31:	
2016	\$4,050
2017	15,016
2018	13,487
2019	11,241
2020	10,646
Thereafter	147,994
	\$202,434

## FINANCIAL ENGINES, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

## NOTE 8 — Stockholders' Equity

## Stock-based Compensation

The following table summarizes the stock-based compensation, as included in the Unaudited Condensed Consolidated Statements of Income, by functional area:

	Three Months Ended		Nine Months Ended	
	September 30, 2015    2016		September 30, 2015    2016	
	(In thousands)			
Stock-based compensation:				
Cost of revenue	\$1,061	\$913	\$3,192	\$2,685
Research and development	1,334	2,579	4,046	6,248
Sales and marketing	2,142	3,077	6,033	8,280
General and administrative	1,859	2,871	5,677	6,751
Amortization of internal use software, included in				
amortization of intangible assets	84	140	248	343
Total stock-based compensation	\$6,480	\$9,580	\$19,196	\$24,307

## Cash Dividends

On October 25, 2016, the Board of Directors declared a quarterly dividend of \$0.07 per share to be paid on January 6, 2017 to record-holders as of December 14, 2016. While the Company currently expects to pay comparable cash dividends on a quarterly basis in the future, any future determination with respect to the declaration and payment of dividends will be at the discretion of the Board of Directors. As of September 30, 2016, the Company had a dividend payable balance of \$3.7 million, which was paid to stockholders in October 2016.

## Stock Repurchase Program

On November 5, 2014, the Board of Directors approved a stock repurchase program of up to \$50.0 million of the Company's common stock in the open market over a twelve-month period funded by available working capital, of which \$47.6 million had been utilized before the stock repurchase program expired on November 4, 2015. The repurchases were recorded as treasury stock and resulted in a reduction of stockholder's equity.

## 2009 Stock Incentive Plan

In February 2016, the Board of Directors approved an executive severance and change in control policy for the Company's executive officers, which provides that the executive officers may receive 100% accelerated vesting of outstanding equity awards and extended exercise rights for outstanding stock option awards, subject to severance and change in control conditions and contingent upon the execution by the executive officer of a full release of claims against the Company and any of its affiliates. The change in control provisions apply to the equity awards made to the Company's executive officers under the 2009 Stock Incentive Plan on May 20, 2016.

These new provisions are in addition to existing provisions whereby certain awards under the 2009 Stock Incentive Plan also provide for partial acceleration in the event of involuntary termination within 12 months of a change in control event, death or total and permanent disability.

#### NOTE 9 — Net Income Per Common Share

Basic net income per common share is computed by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding during the period less the weighted average number of common shares repurchased by the Company during the period. Diluted net income per common share is computed by giving effect to all dilutive potential common shares, including options, RSUs, and PSUs. Repurchased shares are held as treasury stock and outstanding shares used to calculate earnings per share have been reduced by the weighted number of repurchased shares.

## FINANCIAL ENGINES, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

On February 1, 2016, the Company issued 9,885,889 shares of its common stock as part of the consideration to acquire The Mutual Fund Store.

The following table sets forth the computation of basic and diluted net income per share:

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	2016		2016	
(In thousands, except per share data)				
Numerator (basic and diluted):				
Net income	\$8,477	\$7,147	\$24,878	\$19,519
Denominator (basic):				
Net weighted average common shares outstanding	51,655	61,838	51,586	60,608
Denominator (diluted):				
Weighted average common shares outstanding	51,655	61,838	51,586	60,608
Dilutive stock options outstanding	845	547	962	583
Dilutive unvested restricted stock units	393	601	368	453
Dilutive unvested performance stock units	41	15	23	13
Net weighted average common shares outstanding	52,934	63,001	52,939	61,657
Net income per share attributable to holders of				
common stock:				
Basic	\$0.16	\$0.12	\$0.48	\$0.32
Diluted	\$0.16	\$0.11	\$0.47	\$0.32

Diluted net income per share does not include the effect of the following anti-dilutive common equivalent shares:

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	2016		2016	
(In thousands)				
Stock options outstanding	1,378	4,441	1,473	3,863
Restricted stock units outstanding	—	4	—	94



Total anti-dilutive common equivalent shares	1,378	4,445	1,473	3,957
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#### NOTE 10 — Income Taxes

The Company recorded an income tax provision of \$5.7 million and \$4.4 million for the three months ended September 30, 2015 and 2016, respectively. The Company's effective tax rate was 40% and 38% for the three months ended September 30, 2015 and 2016, respectively. The effective tax rate decreased due primarily to changes in state taxes as a result of acquiring The Mutual Fund Store.

The Company recorded an income tax provision of \$13.6 million and \$14.0 million for the nine months ended September 30, 2015 and 2016, respectively. The Company's effective tax rate was 35% and 42% for the nine months ended September 30, 2015 and 2016, respectively. The effective tax rate increased due primarily to non-deductible expenditures incurred in connection with acquiring The Mutual Fund Store during the three months ended March 31, 2016. The lower effective tax rate for the nine months ended September 30, 2015 was due primarily to the recognition of tax benefits upon resolution of income tax uncertainties and changes in state taxes.

The Company is subject to income taxes in the U.S. federal jurisdiction and various state jurisdictions. All tax years since inception are open due to loss carryforwards and may be subject to examination in one or more jurisdictions.

At December 31, 2015, the Company had net operating loss carryforwards for federal purposes of approximately \$98.8 million that expire at varying dates through 2035.

FINANCIAL ENGINES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

As of December 31, 2015, the Company continued to believe that sufficient positive evidence exists from historical operations and future projections to conclude that it is more likely than not to fully realize its deferred tax assets in future periods. The Company continuously evaluates facts representing positive and negative evidence in the determination of the realizability of the deferred tax assets. As of December 31, 2015, the Company had gross unrecognized tax benefits for income taxes associated with uncertain tax positions of \$6.7 million, and does not expect this to change materially for the remainder of the year.

On February 1, 2016, the Company closed its acquisition of The Mutual Fund Store and recorded deferred tax assets of \$19.5 million related to the acquisition, primarily for acquired net operating losses available to be utilized in future periods.

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes. ASU 2015-17 simplifies the presentation of deferred taxes by requiring that deferred tax assets and liabilities, and any related valuation allowance, to be classified as non-current. The Company early adopted ASU 2015-17 as of December 31, 2015 on a prospective basis.

NOTE 11— Commitments and Contingencies

Commitments

In February 2016, as a result of the acquisition of The Mutual Fund Store, the Company acquired non-cancelable operating leases, including an existing facility in Overland Park, Kansas, which expired in September 2016, as well as a new 33,100 square foot facility in Overland Park, Kansas. There were remaining future minimum payments associated with the new lease of approximately \$7.5 million as of February 1, 2016 and it expires in March 2027. This lease also includes a tenant improvement allowance of approximately \$1.8 million, which is being directly paid by the landlord. As of the acquisition date of February 1, 2016, the total remaining future minimum payments associated with the acquired non-cancelable operating leases were approximately \$17.6 million with expiration dates varying through March 2027. Future minimum payments associated with non-cancelable operating leases related to franchise acquisitions to date were immaterial.

The Company classifies tenant improvement allowances in its Unaudited Condensed Consolidated Balance Sheets under deferred rent and in its Unaudited Condensed Consolidated Statements of Cash Flows under operating activities.

Contingencies

The Company includes service level commitments to its customers warranting certain levels of reliability and performance. The maximum total commitments under these obligations would have less than a \$1.0 million impact on the Company's annual operating results.

NOTE 12 – Subsequent Events

In October 2016, the Company completed the acquisition of the eight remaining franchises for total aggregate cash consideration of approximately \$12.8 million.

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

This Report contains forward-looking statements that involve risks and uncertainties. In some cases, you can identify forward-looking statements by terms such as “may,” “might,” “will,” “objective,” “goal,” “intend,” “should,” “could,” “can,” “expect,” “believe,” “designed to,” “estimate,” “predict,” “potential,” “plan,” or the negative of these terms, and similar expressions. These statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Forward-looking statements include, but are not limited to, statements regarding anticipated trends and challenges in our business and the markets in which we operate; the capabilities, benefits and effectiveness of our services; our strategy; our plans for future services, enhancements of existing services and our growth; the potential impact of the acquisition of The Mutual Fund Store on our business, financial condition and operating results, including our revenue and expenses; franchise acquisitions and the potential impact thereof, including with respect to the financial impact and accounting treatment related thereto, our ability to have increased oversight and control over the operations of these advisor center locations, and franchise royalty fees and advisory fees; the anticipated effects of our methodologies on the impact of financial market volatility on our revenue; our expectations around the timing of workplace campaigns; our expenses and revenue; our effective tax rate; our deferred tax assets; cash payments related to tax withholding obligations, including timing and amounts thereof; our anticipated cash needs and our estimates regarding our capital requirements and our needs for additional financing; factors which may impact our professional management operating metrics; the utility of these metrics, including our belief that DC AUC and eligible prospective clients are useful indicators of potential DC AUM and clients available for enrollment into our professional management service; the anticipated effect of campaigns, promotions and stock market performance on client cancellations; our ability to retain and attract customers; our regulatory environment; our expectations regarding the amounts, timing and frequency of any payment of dividends; our expectations for increasing headcount and granting equity awards, and the potential financial and accounting impact and timing related thereto; impact of our accounting policies; and non-GAAP financial measures. These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, the risks set forth throughout this Report, including under Item 1A, “Risk Factors.” These forward-looking statements speak only as of the date hereof. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Financial Engines, Inc. was incorporated on May 13, 1996 under the laws of the state of California and is headquartered in Sunnyvale, California. In February 2010, Financial Engines, Inc. was reincorporated in the state of Delaware. The Company's investment advisory and management services are provided through its subsidiary, Financial Engines Advisors L.L.C., a federally registered investment adviser. In February 2016, we completed the acquisition of Kansas City 727 Acquisition LLC, a Delaware limited liability corporation, as well as its subsidiaries and certain affiliates (collectively, “The Mutual Fund Store”). The Mutual Fund Store operates as a nationwide system of registered investment advisors. References in this Report to “Financial Engines,” “our company” “we,” “us” and “our” refer to Financial Engines, Inc. and its consolidated subsidiaries during the periods presented unless the context requires otherwise.

### Overview

Headquartered in Sunnyvale, CA, Financial Engines was co-founded in 1996 by Nobel Prize-winning economist William F. Sharpe with the goal of offering affordable, personalized investment advice and management, free of

product conflicts, to all individuals, regardless of their wealth or investment expertise.

We are a leading provider of technology-enabled comprehensive financial advisory services, including financial planning, investment management and retirement income solutions, covering accounts including employer-sponsored defined contribution (DC) accounts (401(k), 457, and 403(b) plans), IRA accounts, and taxable accounts. We help individuals, either online or with an advisor, develop a strategy to reach investing and retirement goals by offering a comprehensive set of services, including holistic, personalized plans for saving and investing, assessments of retirement income, and the option to meet face-to-face with a dedicated financial advisor at one of more than 125 advisor centers nationwide.

Our services are primarily delivered in the workplace through relationships with leading plan providers and plan sponsors, and our clients are primarily individuals participating in DC retirement plans, as well as individual investors outside the workplace. Clients are defined as individuals who utilize our services, including professional management, online advice, education or guidance. Included in our services is the use of our cost-efficient, proprietary and scalable advice technology platform.

We maintain two types of relationships with DC plan providers. In direct advisory relationships, we are the primary advisor and a plan fiduciary. In subadvisory relationships, the plan provider (or its affiliate) is the primary advisor and plan fiduciary, and we act in a subadvisory capacity.

## Revenue

We generate revenue through three primary sources: professional management, platform and other revenue.

### Professional Management Revenue

We derive professional management revenue from client fees paid by or on behalf of both DC and individual investor clients who are enrolled in our professional management service for the management of their account assets. Our professional management service is a discretionary investment advisory service that can include comprehensive financial planning, investment management and retirement income services that are designed to help clients develop and execute a savings and investing strategy for reaching their retirement and other financial goals. Our professional management service includes advice on DC accounts, IRA accounts and taxable accounts. Our retirement income solutions, including Income+ and Retirement Paycheck, which are features of our professional management service, provide clients approaching or in retirement with discretionary portfolio management with an income objective and steady monthly payments from their accounts during retirement, including Social Security claiming guidance and planning. The services are generally made available to prospective clients by written agreements with the plan provider, the plan sponsor and the plan participant in a DC plan and by written agreements with individual investors; and may be provided on a subadvisory basis.

Our arrangements with clients using professional management services generally provide for fees based on the value of assets we manage and are generally payable quarterly in arrears. The majority of our professional management client fees across both advisory and subadvisory relationships for DC accounts are calculated on a monthly basis, as the product of client fee rates and the value of assets under management (AUM) at or near the end of each month. In general, we expect this monthly methodology to reduce the impact of financial market volatility on this portion of our professional management revenue, although this methodology may result in lower client fees if the financial markets are down when client fees are calculated, even if the market had performed well earlier in the month or the quarter. For IRA and taxable accounts, our client fees are calculated on a quarterly basis at the end of each quarter. In general, we expect this quarterly methodology to potentially result in greater impact of financial market volatility on this portion of our professional management revenue and may result in lower client fees if the financial markets are down when client fees are calculated, even if the market had performed well earlier in the month or the quarter.

Pursuant to the contracts with our clients, we calculate the fees billed to clients based on the asset amounts in data files as received directly from the account provider or custodian, with no judgments or estimates on our part. None of our professional management fee revenue is based on investment performance or other incentive arrangements. Our fees generally are based on AUM, which is influenced by market performance. Our fees are not based on a share of the capital gains or appreciation in a client's account. In some cases, our client fees or the applicable fee schedule may adjust downward based on overall participant or DC AUM enrollment performance milestones over time. Our client fees are determined by the value of the assets in the client's account at specified dates and are recognized as the services are performed.

In order to encourage utilization of our professional management services, we use a variety of promotional and communication techniques, some of which can potentially impact the amount of revenue recognized, the timing of revenue recognition or both. Historically, we have seen a general preference from workplace plan sponsors to commence campaigns in the second and third quarters of the year and we expect this trend to continue. We would generally expect our professional management revenue to continue to increase as a percentage of overall revenue,

which will cause our revenue to become increasingly more sensitive to market performance.

Professional management revenue is earned as services are performed. We use estimates primarily related to the portion of professional management revenue that has not been invoiced and is not otherwise due from the customer at period end.

#### Professional Management Revenue Metrics

AUM is defined as the amount of assets that we manage as part of our professional management service, including assets managed through franchises. Our AUM is the value of assets under management as reported by plan providers and custodians at or near the end of each month or quarter.

DC AUM is the DC asset balances associated with clients enrolled in the professional management service, including those at plan sponsors where enrollment campaigns are not yet concluded or have not yet commenced, as of a specified date. We measure enrollment in our professional management service by DC clients as a percentage of eligible DC prospective clients and by DC AUM as a percentage of defined contribution account Assets Under Contract (DC AUC). IRA and taxable account AUM represent the IRA and taxable account asset balances associated with those clients enrolled in the professional management service as of a specified date.

As of September 30, 2016, we had approximately \$124.2 billion of DC AUM and \$10.2 billion of IRA and taxable account AUM, associated with 992,000 total clients.

DC AUC is defined as the amount of assets in DC plans under contract for which the professional management service has been made available to eligible prospective clients in the workplace. Our DC AUC and eligible prospective clients do not include assets or prospective clients in DC plans where we have signed contracts but for which we have not yet made the professional management service available. Eligible prospective clients and DC AUC are reported by plan providers with varying frequency and at different points in time, and are not always updated or marked to market. If markets have declined or if assets have left the plan since the reporting date, our DC AUC may be overstated. If markets have risen, or if assets have been added to the plan, since the reporting date, our DC AUC may be understated. Some prospective clients may not be eligible for our services due to plan sponsor limitations on employees treated as insiders for purposes of securities laws or other characteristics of the prospective client. Certain securities within a plan prospective client's account may be ineligible for management by us, such as employer stock subject to trading restrictions, and we do not manage or charge a fee for that portion of the account. In both of these circumstances, assets of the relevant prospective clients may be included in DC AUC but cannot be converted to DC AUM. We believe that DC AUC can be a useful indicator of the additional DC plan assets available for enrollment efforts that, if successful, would result in these assets becoming DC AUM. We believe that total eligible prospective clients provides a useful approximation of the number of workplace-based prospective clients available for enrollment into our professional management service.

As of September 30, 2016, we had approximately \$1.04 trillion of DC AUC and 9.4 million eligible prospective clients in DC plans for which the professional management service is available, which includes approximately \$440 billion of DC AUC and 4.1 million prospective clients in DC plans at 198 plan sponsors for which Income+ has been made available to prospective clients.

As of September 30, 2016, we had 367 Income+ plan sponsor contracts, including the aforementioned 198 plan sponsors where Income+ has been made available to prospective clients and 169 plan sponsors for which the service has not yet been made available, representing a total of approximately \$585 billion of DC AUC and 5.6 million prospective clients.

As of September 30, 2016, approximately 10.2% of DC eligible prospective clients were enrolled as clients and 11.9% of DC AUC was enrolled as DC AUM.

As of September 30, 2016, the approximate aggregate style exposure of the accounts we managed was as follows:

Domestic equity	45 %
International equity	26 %
Bonds	26 %
Cash and uncategorized assets <sup>(1)</sup>	3 %
Total	100%



1)Uncategorized assets may include CDs, options, warrants and other vehicles not currently categorized.

The percentages in the table above can be affected by the asset exposures of the overall market portfolio of the accounts we manage, the demographics of our client population including the adoption of Income+, the number of clients who have told us that they want to assume greater or lesser investment risk, and, to a lesser extent given the amount of assets we have under management, the proportion of our clients for whom we have completed the transition from their initial portfolio.

## Changes in AUM

The following definitions are provided and relate to the table below illustrating estimated changes in our AUM over the last four quarters.

New assets from new clients represents the aggregate amount of new AUM, measured at or near the end of the quarter, from new clients who enrolled in our professional management service within the quarter. We receive DC account balances for each new client at least weekly, and accordingly, we are generally able to measure the DC account asset balances within a week of the end of the quarter for new clients. For new clients with new IRA and taxable accounts assets, we are generally able to measure the account balances as of the last day of the quarter. New client assets for IRA and taxable accounts are those assets acquired within a ninety-day period after enrollment during which assets may be rolled into those accounts, and new client assets acquired in the subsequent quarter after enrollment are valued as of the last day of that subsequent quarter.

New assets from existing clients represents the aggregate amount of new AUM within the quarter from existing clients who originally enrolled in our professional management service during a prior period. These new assets include employer and employee contributions into DC plan accounts, as well as assets added by existing clients into new or existing IRA and taxable accounts. Employer and employee DC contributions data is estimated each quarter from annual contribution rates based on data received from plan providers or plan sponsors. Typically, we receive data from plan providers or plan sponsors via weekly client files, allowing us to estimate contributions for those clients for whom we have received this data. After the first 90 days, new clients become existing clients. For new IRA and taxable account assets, we are generally able to measure the new assets from existing clients as of the date the additional assets are deposited.

Voluntary cancellations represent the aggregate amount of assets, measured at or near the start of the quarter, for clients who have voluntarily terminated their professional management service relationship within the period. Clients may cancel at any time without any requirement to provide advance notice. Our quarter-end AUM excludes all of the assets of any accounts cancelled by a client prior to the end of the last day of the quarter. We receive DC account balances for each client at least weekly, and accordingly, we are able to measure the DC account asset balances within a week of the start of the quarter for existing clients. For existing IRA and taxable accounts assets, we are able to measure the account balances as of the first day of the quarter.

Involuntary cancellations represent the aggregate amount of DC assets, measured at or near the start of the quarter, for clients whose professional management service relationship was terminated within the quarter period for reasons other than a voluntary termination. Such cancellations may occur when all of the client's account balances have been reduced to zero or when the cancellation of a plan sponsor contract for the professional management service has become effective within the period. Plan sponsors may cancel their contract for the provision of professional management services upon specified notice or without notice for fiduciary reasons or breach of contract. If a plan sponsor has provided advance notice of cancellation of the plan sponsor contract, however, the AUM for clients of that plan sponsor is included in our AUM until the effective date of the cancellation, after which it is no longer part of our AUM. If a client's accounts value falls to zero, either upon the effective date of a sponsor cancellation or as a result of the client transferring the entire balance of their accounts, we will terminate their professional management service relationship.

Assets withdrawn by existing clients includes voluntary withdrawals from IRA and taxable accounts. Voluntary withdrawals represent the aggregate amount of assets, measured at the time of withdrawal, for clients who took automatic distributions or who otherwise withdrew funds from their managed IRA or taxable accounts without terminating their professional management service relationship within the period.

Market movement and other factors affecting AUM include estimated market movement, plan administrative and investment advisory fees, client loans, hardship and other defined contribution account withdrawals, defined contribution account retirement income drawdown payouts and timing differences for the data feeds for clients enrolled in our professional management service throughout the period. We expect that market movement would typically represent the most substantial portion of this line item in any given quarter.

The following table illustrates estimated changes in our AUM over the last four quarters:

	Q4'15	Q1'16	Q2'16	Q3'16
	(In billions)			
AUM, beginning of period	\$108.0	\$113.4	\$122.0	\$125.3
New assets - new clients <sup>(1)</sup>	4.3	3.0	4.6	4.4
New assets - existing clients <sup>(2)</sup>	1.9	1.9	2.0	2.2
New assets - acquisitions <sup>(3)</sup>	—	9.8	—	—
Asset cancellations - voluntary <sup>(4)</sup>	(2.4 )	(2.0 )	(1.8 )	(1.9 )
Asset cancellations - involuntary <sup>(5)</sup>	(1.8 )	(3.3 )	(1.4 )	(1.8 )
Assets withdrawn - existing clients	—	—	(0.1 )	(0.1 )
Net new assets	2.0	9.4	3.3	2.8
Market movement and other	3.4	(0.8 )	—	6.3
AUM, end of period	\$113.4	\$122.0	\$125.3	\$134.4

- (1) For quarters presented prior to Q1'16, these DC assets were measured as of the time of enrollment and effective Q1'16, these assets were measured on or near the end of the quarter. Differences resulting from this definitional change are considered to be immaterial for the periods presented.
- (2) For Q1'16, Q2'16 and Q3'16, we estimate employer and employee DC plan contributions to be \$1.9 billion, \$1.9 billion and \$2.0 billion, respectively.
- (3) The value of the AUM as of March 31, 2016 that resulted from The Mutual Fund Store acquisition on February 1, 2016.
- (4) For quarters presented prior to Q1'16, these assets were measured as of the time of cancellation and effective Q1'16, these assets were measured on or near the beginning of the quarter. Differences resulting from this definitional change are considered to be immaterial for the periods presented.
- (5) Involuntary client cancellations due to the effective date of a plan sponsor cancellation occurring between October 1, 2016 and October 28, 2016 would cause the total AUM that was reported as of September 30, 2016 to be reduced by 0.4%. For quarters presented prior to Q1'16, these assets were measured as of the time of cancellation and effective Q1'16, these assets were measured on or near the beginning of the quarter. Differences resulting from this definitional change are considered to be immaterial for the quarters presented.

For the last four quarters, the weekly member files contained annual contribution rates, employer matching and salary levels for a subset of our total members, representing approximately 91-95% of our overall AUM. The average contribution rate is calculated using this data and extrapolated to approximate 100% of employee and employer contributions for our overall AUM. Our AUM increases or decreases based on several factors. AUM can increase due to market performance, by the addition of new assets as prospective clients enroll into our professional management service at existing and new sponsors, and by the addition of new assets from existing clients, including from employee and employer contributions into their DC accounts. AUM can decrease due to market performance and by the reduction of assets as a result of clients terminating their relationships, clients rolling their assets out of their accounts, and sponsors canceling the professional management service. Historically, client cancellation rates have typically increased during periods where there has been a significant decline in stock market performance. In addition, client cancellation rates are typically the highest during the six months immediately following the completion of a given promotion, and certain types of promotional techniques may result in higher than average cancellation rates at the end of the promotional period.

A substantial portion of the assets we manage is invested in equity securities, the market prices of which can vary substantially based on changes in economic conditions. An additional portion is invested in fixed income securities,

which will generally have lower volatility than the equity market. Therefore, while any changes in equity market performance would significantly affect the value of our AUM, particularly for the AUM invested in equity securities, such changes would typically result in lower volatility for our AUM than the volatility of the equity market as a whole. Because a substantial portion of our revenue is derived from the value of our AUM, changes in fixed income or equity market performance could significantly affect the amount of revenue in a given period. If any of these factors reduces our AUM, the amount of client fees we would earn for managing those assets would decline, which in turn could negatively impact our revenue.

The trends associated with our professional management revenue are driven primarily by trends related to our AUM, as well as the trends related to client fees. The factors primarily affecting our AUM include our ability to enroll and retain clients in our professional management services, to retain existing and to sign new contracts with sponsors, providers and custodians, the level of employee, employer and individual investor contributions and market performance. The factors primarily affecting our client fees include the value of services provided and related industry pricing trends, as well as the contractually-negotiated fee rates we receive for our DC subadvisory services and fee changes as a result of achieving certain sponsor-based enrollment milestones for our DC direct advisory services.

## Platform Revenue

We derive platform revenue from recurring, subscription-based fees for access to our services, including professional management, online advice, education and guidance, and to a lesser extent, from setup fees. Online advice is a non-discretionary, Internet-based investment advisory service, which includes features such as: recommendations among the investment alternatives available in the DC plan; a summary of the current value of the plan account; a forecast of how much the plan account investments might be worth at retirement; whether a change is recommended to the contribution rate, risk and diversification and/or unrestricted employer stock holdings; and a projection of how much the participant may spend at retirement. The service also provides investment advice on IRA and taxable accounts when made available by the plan sponsor and selected by the client. Clients may use the service as frequently as they choose to monitor progress toward their financial goals, receive forecasts and investment recommendations and access educational content at our website. The arrangements generally provide for our fees to be paid by the plan sponsor, plan provider or the DC plan itself, depending on the plan structure. Platform revenue is generally paid annually or quarterly in advance and recognized ratably over the term of the subscription period beginning after the completion of customer setup and data connectivity. Setup fees are recognized ratably over seven years.

## Other Revenue

Other revenue includes fees for non-retirement account servicing, franchise royalty fees, reimbursement for a portion of marketing and client materials from certain subadvisory relationships and reimbursement for providing personal statements to prospective clients from a limited number of plan sponsors. The fees for non-retirement account servicing do not impact client fees paid for professional management, and are disclosed in the applicable Form ADV of the Company's advisory subsidiaries. Franchise royalty fees are recognized as revenue as the services are performed by the franchisees based on specified percentages of the franchisees' advisory fees billed to their clients. Franchise royalty fees charged by the franchisees to their clients are primarily based on predetermined percentages of the market value of the AUM and are affected by changes in the AUM. Costs associated with reimbursed printed fulfillment materials are expensed to cost of revenue as incurred.

## Costs and Expenses

Employee compensation and related expenses represent our largest expense and include wages expense, cash incentive compensation expense, variable cash compensation expense, commission expense, benefits expenses, employer payroll tax expense and non-cash stock-based compensation expense. Our cash incentive compensation plan is based, in part, on achieving pre-determined annual corporate financial objectives and may result in an increased current period expense while the anticipated revenue benefits associated with the achievement of such corporate financial objectives may be realized in future periods. We allocate compensation and other related expenses including non-cash stock-based compensation to our cost of revenue, research and development, sales and marketing, general and administrative and internal use software, which is included in amortization of intangible assets. We expect our headcount to increase over time, and to be a primary area of growth in our costs and expenses. We anticipate granting equity awards to board members and certain of our employees each year that may result in significant non-cash stock-based compensation expense. We anticipate the largest grant events to typically occur in the first quarter of each year, although significant awards may also be granted at other times. We anticipate providing annual compensation increases to certain of our employees each year, typically in the second quarter, that may result in an increase primarily to wages and cash incentive compensation expenses.

Other costs and expenses include the costs of fees paid to plan providers related to the exchange of plan and prospective client data as well as implementing our transaction instructions for client accounts, printed marketing and client materials and postage, advertising, consulting and professional service expenses, facilities expenses, and amortization and depreciation for hardware and software purchases and support.

The following summarizes our cost of revenue and certain significant operating expenses:

Cost of Revenue. Cost of revenue includes fees paid to plan providers for connectivity to plan and plan prospective client data, printed materials fulfillment costs for certain subadvisory relationships for which a portion are reimbursed, printed client materials, and employee-related costs for in-person dedicated advisor centers, including variable cash compensation expense related to ongoing asset servicing activities, and call center advisors, operations, implementations, technical operations, portfolio management and client service administration. Costs in this area are related primarily to payments to third parties, employee compensation and related expenses, facilities expenses, purchased materials and depreciation. Costs for connectivity to plan and prospective client data are expected to increase proportionally with our professional management revenue related to DC AUM. The expenses included in cost of revenue are shared across the different revenue categories, and we are not able to meaningfully allocate such costs between separate categories of revenue. Consequently, all costs and expenses applicable to our revenue are included in the category cost of revenue in our Unaudited Condensed Consolidated Statements of Income.

**Research and Development.** Research and development expense includes costs associated with defining and specifying new features and ongoing enhancement to our advice engines and other aspects of our service offerings, investment methodology, financial research, quality assurance, related administration and other costs that do not qualify for capitalization. Costs in this area are related primarily to employee compensation for our engineering, product development and investment research personnel and associated expenses and, to a lesser extent, external consulting expenses, which relate primarily to support and maintenance of our existing services.

**Sales and Marketing.** Sales and marketing expense includes costs associated with product and consumer marketing, provider and sponsor relationship management, provider and sponsor marketing, direct sales, corporate communications, public relations, creative services, sales related call center activities, advertising and live seminars, and printing of, and postage for, marketing materials for direct advisory relationships, including amortization of direct response advertising. Costs in this area are related primarily to employee compensation for sales and marketing personnel and related expenses, and also include commissions, printed materials and general marketing programs. Amounts received for support of marketing and client acquisition efforts are credited ratably to marketing expense. The fees for such support do not impact client fees paid for professional management, and are disclosed in the applicable Form ADV of the company advisory subsidiaries.

**General and Administrative.** General and administrative expense includes costs for finance, accounting, legal, compliance, risk management and administration. Costs in this area include employee compensation and related expenses and fees for consulting and professional services. We have incurred and we expect that we will continue to incur expenses as a result of being a public company for, among other things, SEC reporting and compliance, including compliance with the Sarbanes-Oxley Act of 2002, director compensation, insurance, and other similar expenses.

**Amortization of Intangible Assets.** Amortization of intangible assets includes the amortization of acquisition-related assets such as customer relationships, trademarks and trade names over the estimated useful lives using a straight-line method of amortization. It also includes the amortization of internal use software, which includes engineering costs associated with enhancing our advisory service platform and developing internal systems for tracking client data, including AUM, client cancellations and other related client and customer experience statistics. Associated direct development costs are capitalized and amortized using the straight-line method over the estimated lives, typically two to three years, of the underlying technology. Costs associated with internal use software include employee compensation and related expenses, and fees for external consulting services.

## Recent Developments

### Acquisition of The Mutual Fund Store

On February 1, 2016, we completed the acquisition of The Mutual Fund Store pursuant to an Agreement and Plan of Mergers (the “Merger Agreement”), dated as of November 5, 2015, as amended, by and among Financial Engines, Mayberry Acquisition Sub I, LLC, a Delaware limited liability company and a direct wholly owned subsidiary of Financial Engines, Mayberry Acquisition Sub, Inc., a Delaware corporation and a direct wholly owned subsidiary of Financial Engines, Mayberry Acquisition Sub II, LLC, a Delaware limited liability company and a wholly owned third tier subsidiary of Merger Sub 1, Kansas City 727 Acquisition Corporation, a Delaware corporation, TMFS Holdings, Inc., a Nevada corporation, Kansas City 727 Acquisition LLC, a Delaware limited liability corporation (together with its subsidiaries, “The Mutual Fund Store”), and, solely in its capacity as representative of the Sellers, WP Fury Holdings, LLC. Pursuant to the Merger Agreement, after a series of transactions, The Mutual Fund Store became a wholly-owned subsidiary of Financial Engines.



At the closing of the Merger, pursuant to the Merger Agreement, we paid an aggregate purchase price of \$513 million consisting of approximately \$246 million in cash and 9,885,889 shares of our common stock, subject to closing and post-closing adjustments. A portion of the acquisition consideration was placed in an escrow fund for up to 14 months following the closing for the satisfaction of certain indemnification claims.

Following the closing of the acquisition, investment funds affiliated with Warburg Pincus LLC, the former majority owner of The Mutual Fund Store, held approximately 13% of our then-outstanding shares of common stock.

The foregoing description of the Merger Agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the Merger Agreement, a copy of which was originally filed as an exhibit to our Current Report on Form 8-K filed on November 9, 2015.

#### Franchise Acquisitions in April 2016

In April 2016, we completed the acquisition of seven franchises for a total aggregate cash consideration of \$14.4 million.

#### Franchise Acquisitions in July and August 2016

In July and August 2016, we completed the acquisition of six franchises for a total aggregate cash consideration of \$8.1 million.

#### Franchise Acquisitions in October 2016

In October 2016, we completed the acquisition of the eight remaining franchises for total aggregate cash consideration of approximately \$12.8 million.

#### Critical Accounting Estimates

Except as described below, there have been no changes in the matters for which we make critical accounting estimates in the preparation of our unaudited condensed consolidated financial statements during the three months ended September 30, 2016, as compared to those disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2015 included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

Our unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America which requires us to make judgments, assumptions and estimates that affect the amounts reported. We have established policies and control procedures which seek to ensure that estimates and assumptions are appropriately governed and applied consistently from period to period. However, actual results could differ from our assumptions and estimates, and such differences could be material.

We believe that the following addition to our critical accounting estimates is necessary to fully understand and evaluate our reported financial results. Critical accounting estimates involve our most subjective or complex management judgments, and they result from the need to make estimates about the effect of matters that are inherently uncertain and unpredictable.

#### Purchase Price Accounting

On February 1, 2016, we completed the acquisition of The Mutual Fund Store for aggregate consideration totaling approximately \$513 million, consisting of approximately \$246 million in cash and 9,885,889 shares of our common stock, subject to certain closing and post-closing adjustments. A portion of the acquisition consideration was placed in an escrow fund for up to 14 months following the closing for the satisfaction of certain indemnification claims. In April 2016, we completed the acquisition of seven franchises for a total aggregate cash consideration of \$14.4 million. In July and August 2016, we completed the acquisition of six franchises for a total aggregate cash consideration of \$8.1 million. In October 2016, we completed the acquisition of the eight remaining franchises for total aggregate cash consideration of approximately \$12.8 million. For more information on these acquisitions, see Note 3 to the unaudited condensed consolidated financial statements.

We are required to allocate the purchase consideration paid in a business combination to the tangible and intangible assets acquired and to the liabilities assumed based on their respective acquisition-date fair values, and any residual purchase price is recorded as goodwill. Determining the fair market values of the assets acquired and liabilities assumed at the date of acquisition requires knowledge of current market values, and the values of assets in use, and often requires the application of considerable judgment regarding estimates and assumptions. Assumed liabilities are valued based on estimates of anticipated expenditures to be incurred to satisfy the assumed obligations, including contractual liabilities assumed, which require the exercise of professional judgment as to amounts and timing of settlement. Our estimates may include, but are not limited to, future cash flows of an acquired business, the

appropriate discount rate, expected customer retention rates and the cost savings expected to be derived from an acquisition. These estimates are inherently difficult, subjective and unpredictable, and if different estimates were used, the purchase price allocation to the acquired assets and liabilities would be different. In addition, we make estimates when we assign useful lives to intangible assets identified as part of our acquisitions. These estimates are also inherently uncertain and if different estimates were used, the useful life over which we amortize intangible assets would be different. Therefore, our assessment of the estimated fair value of each of these assets and liabilities can have a material effect on our financial statements.

We review finite-lived intangible assets for triggering events such as significant changes in operations, customers or future revenue that might indicate the need to impair the assets acquired or change the useful lives of the assets acquired. Intangible assets consist of customer relationships, trademarks and trade names, franchise agreements and favorable/unfavorable operating leases. Factors that could trigger an impairment review include significant under-performance relative to historical or projected future operating results, significant changes in the manner of our use of the acquired assets or the strategy for our overall business or significant negative industry or economic trends. If this evaluation indicates that the value of the intangible asset may be impaired, we make an assessment of the recoverability of the net carrying value of the asset over its remaining useful life. If this assessment indicates that the intangible asset is not recoverable, based on the estimated undiscounted future cash flows over the remaining useful life, we reduce the net carrying value of the related intangible asset to fair value. Any such impairment charge could be significant and could have a material adverse effect on our reported financial results. There were no impairments or changes in useful lives of acquired intangible assets during the nine months ended September 30, 2016.

## Results of Operations

The following tables set forth our results of operations. The period to period comparison of financial results is not necessarily indicative of future results.

### Comparison of Three Months Ended September 30, 2015 and 2016

	Three Months Ended		Three Months Ended		Increase	
	September 30, 2015	2016	September 30, 2015	2016	(Decrease) Amount	%
	(As a percentage of revenue)		(In thousands, except percentages)			
Revenue:						
Professional management	89	% 91	% \$70,225	\$102,641	\$32,416	46 %
Platform	10	6	7,501	7,035	(466 )	(6 )
Other	1	3	1,087	2,748	1,661	153
Total revenue	100	100	78,813	112,424	33,611	43
Costs and expenses:						
Cost of revenue	42	45	32,950	50,230	17,280	52
Research and development	11	9	8,753	9,599	846	10
Sales and marketing	20	19	15,526	21,743	6,217	40
General and administrative	8	10	6,280	11,189	4,909	78
Amortization of intangible assets, including						
internal use software	1	3	1,223	4,012	2,789	228
Loss on reacquired franchisee rights	—	4	—	4,092	4,092	n/a
Total costs and expenses	82	90	64,732	100,865	36,133	56
Income from operations	18	10	14,081	11,559	(2,522 )	(18 )
Interest income, net	—	—	119	149	30	25
Other expense, net	—	—	—	(185 )	(185 )	n/a

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Income before income taxes	18	10	14,200	11,523	(2,677 )	(19 )
Income tax expense	7	4	5,723	4,376	(1,347 )	(24 )
Net and comprehensive income	11	% 6	%\$8,477	\$7,147	\$(1,330 )	(16 )%

## Revenue

Total revenue increased \$33.6 million, or 43%, from \$78.8 million for the three months ended September 30, 2015 to \$112.4 million for the three months ended September 30, 2016. This increase was due primarily to growth in professional management revenue and other revenue of \$32.4 million and \$1.7 million, respectively, for the three months ended September 30, 2016 compared to the three months ended September 30, 2015, offset by a decrease of \$0.5 million in platform revenue. Revenue due to the acquisitions was \$29.2 million for the three months ended September 30, 2016. Professional management revenue and platform revenue comprised 91% and 6%, respectively, of total revenue for the three months ended September 30, 2016, and 89% and 10%, respectively, of total revenue for the three months ended September 30, 2015.

As we repurchase franchises, we would expect franchise royalty fees categorized in other revenue to decrease and professional management revenue to increase, as we will be entitled to receive all of the advisory fees rather than a royalty percentage. We estimate the incremental annual revenue run rate related to the remaining franchises as of September 30, 2016 to be approximately \$4.6 million based on AUM as of September 30, 2016. Approximately \$2 million of revenue for the three months ended September 30, 2016 was associated with repurchased franchises, representing the incremental revenue associated with receiving all of the advisory fees rather than a royalty percentage as a result of franchise acquisitions.

#### Professional Management Revenue

Professional management revenue increased \$32.4 million, or 46%, from \$70.2 million for the three months ended September 30, 2015 to \$102.6 million for the three months ended September 30, 2016. This increase was due primarily to an increase in the average AUM used to calculate fees from approximately \$110.4 billion for the three months ended September 30, 2015 to approximately \$131.1 billion for the three months ended September 30, 2016, as well as an increase in average basis points over the prior period as result of client agreements associated with acquired assets. This increase in average AUM was driven by new assets from new and existing clients, new AUM of \$10.1 billion as measured on September 30, 2016 acquired through The Mutual Fund Store acquisition, and market performance, partially offset by cancellations. Approximately \$27.2 million of professional management revenue for the three months ended September 30, 2016 was associated with acquisitions.

#### Platform Revenue

Platform revenue decreased \$0.5 million, or 6%, from \$7.5 million for the three months ended September 30, 2015 to \$7.0 million for the three months ended September 30, 2016. This decrease was due primarily to a small number of sponsor terminations, as well as platform fee reductions resulting from a small number of sponsors converting to a subadvisory plan provider or adding new services. These decreases were partially offset by an increase in platform fees due to service availability at new sponsors.

#### Other Revenue

Other revenue increased \$1.7 million, or 153%, from \$1.1 million for the three months ended September 30, 2015 to \$2.7 million for the three months ended September 30, 2016. This increase was due primarily to the addition of account servicing fee revenue and franchise royalty of \$1.8 million as a result of acquisition activity.

As we have acquired all remaining franchises, we no longer expect to have franchise royalty revenue subsequent to October 1, 2016. We are expecting a pending change to a contract, which under the new arrangement would likely reduce other revenue while also decreasing operating expenses effective January 1, 2017.

#### Costs and Expenses

Costs and expenses increased \$36.1 million, or 56%, from \$64.7 million for the three months ended September 30, 2015 to \$100.9 million for the three months ended September 30, 2016. Cost of revenue increased \$17.3 million, research and development expense increased \$0.8 million, sales and marketing expense increased \$6.2 million, general and administrative expense increased \$4.9 million, amortization of intangible assets increased \$2.8 million and we incurred a \$4.1 million loss on reacquired franchisee rights for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. Expenses increased during the three months ended September 30, 2016 due primarily to increased personnel and operations related to the acquisitions.

Across all functional areas, employee-related expenses such as wages and cash incentive compensation expense increased primarily as a result of acquisition activity, which included the addition of approximately 330 new employees as of February 1, 2016. Non-cash stock-based compensation also increased across all functional areas due primarily to awards granted to employees acquired in February 2016, as well as to awards granted to certain executives in May 2016.

Our Board of Directors approved equity awards with an estimated expense value of \$14.3 million, net of estimated forfeitures, to certain of the new executive and non-executive employees related to acquisition activity, which were granted in February 2016. We will account for these equity awards over a four-year vesting period utilizing the graded-vesting attribution method.

In February 2016, our Compensation Committee approved the future grant of stock options and RSUs in May 2016 to certain executives and other employees, contingent upon receiving stockholder approval at the annual meeting of stockholders in May 2016 for additional shares to be made available under our 2009 Stock Incentive Plan. In May 2016, upon obtaining such stockholder approval, \$10.9 million of stock options and RSUs were granted to certain executives and other employees, net of estimated forfeitures. We will account for these equity awards over a four-year vesting period utilizing the graded-vesting attribution method.

We currently anticipate issuing equity awards with an aggregate estimated expense value of approximately \$2.4 million, based on the fair market value of our common stock as of September 30, 2016, and \$12.7 million, net of estimated forfeitures, to certain of our existing non-executive employees in the fourth quarter of 2016 and first quarter of 2017, respectively. We expect to account for these equity awards over a four-year vesting period utilizing the graded-vesting attribution method.

The non-cash stock-based compensation expense associated with these awards will be in addition to the amortization of both previously and subsequently granted stock awards, including other awards granted in 2016, and expected to be granted in 2016, all of which will utilize the graded-vesting attribution method. We plan to continue to grant equity awards during fiscal year 2016 to certain of our existing employees, new employees and board members.

Effective February 1, 2016, the performance metrics related to the 2013-2017 Long-Term Incentive Program (LTIP) will be based on the financial results at the consolidated level, per the terms of the LTIP agreements. The amounts earned under the LTIP based on such consolidated financial results may result in an increase or decrease in non-cash stock-based compensation expense for the year ended December 31, 2016.

#### Cost of Revenue

Cost of revenue increased \$17.3 million, or 52%, from \$33.0 million for the three months ended September 30, 2015 to \$50.2 million for the three months ended September 30, 2016. There was a \$5.2 million increase in employee-related expenses, including wages, a \$1.0 million increase in cash incentive compensation expense and a \$0.9 million increase non-cash stock-based compensation for the three months ended September 30, 2016 compared to the three months ended September 30, 2015, due primarily to the majority of acquired employees categorized to cost of revenue as they are advisors and other employees associated with advisor center servicing activities. Variable cash compensation expense related to ongoing asset servicing activities by advisor center advisors resulted in an increase of \$3.3 million. Facilities-related overhead expenses, including rent and depreciation, increased by \$3.5 million, due primarily to increased allocation based on headcount, as well as increased facilities expenses related to the acquired advisor centers. In addition, there was a \$3.2 million increase in data connectivity fees due primarily to revisions to a provider relationship which was signed in the third quarter of 2015, as well as an increase in professional management revenue. These revisions included a credit of \$1.3 million to data connectivity fee expense during the three months ended September 30, 2015. Non-capitalized equipment-related expenses increased \$0.7 million and a variety of other expenses increased \$0.4 million in total. These increases were partially offset by a \$0.9 million decrease in printed member and subadvisory marketing materials costs as we move more towards electronic delivery. As a percentage of revenue, cost of revenue increased from 42% for the three months ended September 30, 2015 to 45% for the three months ended September 30, 2016. The increase as a percentage of revenue was due primarily to variable cash compensation expense for advisors, facilities-related overhead expenses and other employee-related expenses, including wages, increasing at a faster rate than revenue, partially offset by data connectivity fees and printed member materials increasing at a slower rate than revenue.

We expect our cost of revenue as a percent of revenue to be approximately 44% for the year ended December 31, 2016, which we expect will include costs related to advisor centers personnel and operations after the repurchase of franchises.

#### Research and Development

Research and development expense increased \$0.8 million, or 10%, from \$8.8 million for the three months ended September 30, 2015 to \$9.6 million for the three months ended September 30, 2016. There was a \$0.8 million increase in employee-related expense, including wages, and a \$0.5 million increase in cash incentive compensation due primarily to annual compensation increases and headcount growth, as well as a \$0.5 million increase in non-cash



stock-based compensation expense for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. These increases were partially offset by a \$0.5 million decrease in consulting expense, a \$0.4 million increase in the amount of internal use software capitalized, due primarily to increased labor rates and the number of hours dedicated to internal use software projects, and a \$0.1 million decrease in other expenses. As a percentage of revenue, research and development expense decreased from 11% for the three months ended September 30, 2015 to 9% for the three months ended September 30, 2016. The decrease as a percentage of revenue was due primarily to employee-related expense, including wages, growing at a slower rate than revenue as well as a decrease in consulting expenses.

## Sales and Marketing

Sales and marketing expense increased \$6.2 million, or 40%, from \$15.5 million for the three months ended September 30, 2015 to \$21.7 million for the three months ended September 30, 2016. There was a \$2.5 million increase in marketing programs expense, due primarily to radio and digital advertising, partially offset by amounts received for support of marketing and client acquisition efforts for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. There was a \$0.9 million increase in employee-related expenses, including wages, and a \$0.9 million increase in cash incentive compensation expense due primarily to the addition of employees as the result of acquisition activity and annual compensation increases, as well as a \$0.5 million increase non-cash stock-based compensation. Consulting expenses increased \$1.4 million due primarily to outside marketing services related mainly to branding integration. Facilities-related overhead expenses, including rent and depreciation, increased by \$0.4 million and travel expenses increased by \$0.3 million as a result of increased headcount. These increases were partially offset by a \$0.7 million decrease in printed marketing materials expense as more printed marketing materials were expensed as incurred during the three months ended September 30, 2015 as they did not qualify for capitalization per the accounting definition of direct response advertising. As a percentage of revenue, sales and marketing expense decreased from 20% for the three months ended September 30, 2015 to 19% for the three months ended September 30, 2016. The decrease as a percentage of revenue was due primarily to employee-related expense, including wages, growing at a slower rate than revenue and a decrease in printed marketing materials expense, partially offset by marketing programs due primarily to radio and digital advertising growing at a faster rate than revenue.

## General and Administrative

General and administrative expense increased \$4.9 million, or 78%, from \$6.3 million for the three months ended September 30, 2015 to \$11.2 million for the three months ended September 30, 2016. There was a \$0.9 million increase in employee-related expenses, including wages, and a \$1.0 million increase in cash incentive compensation expense due primarily to the addition of employees as the result of acquisition activity and annual compensation increases, as well as a \$1.0 million increase in non-cash stock-based compensation expense for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. There was also a \$1.8 million increase in consulting and professional services expenses due primarily to acquisition-related integration activities. In addition, there was a \$0.3 million increase in travel and entertainment expenses, and an increase of \$0.2 million in other expenses. These increases were partially offset by a \$0.3 million decrease in facilities-related overhead expenses, including rent and depreciation. As a percentage of revenue, general and administrative expense increased from 8% for the three months ended September 30, 2015 to 10% for the three months ended September 30, 2016. The increase as a percentage of revenue was due primarily to consulting and professional services expenses, and cash incentive compensation expense increasing at a faster rate than revenue.

## Amortization of Intangible Assets

Amortization of intangible assets increased \$2.8 million, or 228%, from \$1.2 million for the three months ended September 30, 2015 to \$4.0 million for the three months ended September 30, 2016, due primarily to the addition of amortization of customer relationships, trademarks and trade names associated with acquisition activity.

## Loss on Reacquired Franchisee Rights

In the case of two franchises acquisitions, we assessed the fair value of these reacquired rights to be less than the purchase price based on market values of other recently reacquired franchisee rights. This resulted in an unfavorable reacquisition of these franchisee rights, resulting in a \$4.1 million loss for these transactions for the three months ended September 30, 2016.

## Income Taxes

Income tax expense decreased from \$5.7 million for the three months ended September 30, 2015 to \$4.4 million for the three months ended September 30, 2016. Our effective tax rate decreased from 40% for the three months ended September 30, 2015 to 38% for the three months ended September 30, 2016. The effective tax rate decreased due primarily to changes in state taxes as a result of acquiring the Mutual Fund Store. We would expect to see an effective tax rate of approximately 38-40%, excluding the effect of research and development credits, any changes in valuation allowances, and discrete items such as disqualifying stock dispositions in future periods.

As of September 30, 2016, we continue to believe that sufficient positive evidence exists from historical operations and future projections to conclude that we are more likely than not to fully realize our federal deferred tax assets and our State of California deferred tax assets in future periods. We continuously evaluate additional facts representing positive and negative evidence in the determination of the realizability of the deferred tax assets.

# Comparison of Nine months ended September 30, 2015 and 2016

	Nine Months Ended		September 30, 2015		September 30, 2016		Increase (Decrease) Amount %	
			(As a percentage of					
	revenue)		(In thousands, except percentages)					
Revenue:								
Professional management	89	% 91	%	\$206,501	\$281,518	\$75,017	36	%
Platform	10	7		23,126	21,306	(1,820 )	(8 )	
Other	1	2		2,371	7,891	5,520	233	
Total revenue	100	100		231,998	310,715	78,717	34	
Costs and expenses:								
Cost of revenue	42	44		97,532	136,101	38,569	40	
Research and development	11	9		26,537	27,833	1,296	5	
Sales and marketing	20	20		46,248	61,892	15,644	34	
General and administrative	9	11		19,720	35,598	15,878	81	
Amortization of intangible assets, including								
internal use software	1	4		3,680	11,137	7,457	203	
Loss on reacquired franchisee rights	—	1		—	4,092	4,092	n/a	
Total costs and expenses	83	89		193,717	276,653	82,936	43	
Income from operations	17	11		38,281	34,062	(4,219 )	(11 )	
Interest income, net	—	—		263	133	(130 )	(49 )	
Other expense, net	—	—		(17 )	(645 )	(628 )	3694	
Income before income taxes	17	11		38,527	33,550	(4,977 )	(13 )	
Income tax expense	6	5		13,649	14,031	382	3	
Net and comprehensive income	11	% 6	%	\$24,878	\$19,519	\$(5,359 )	(22 )	%

## Revenue

Total revenue increased \$78.7 million, or 34%, from \$232.0 million for the nine months ended September 30, 2015 to \$310.7 million for the nine months ended September 30, 2016. This increase was due primarily to growth in professional management revenue and other revenue of \$75.0 million and \$5.5 million, respectively, for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015, offset by a decrease of \$1.8 million in platform revenue. Revenue due to the acquisitions was \$73.7 million for the nine months ended September 30, 2016. Professional management revenue and platform revenue comprised 91% and 7%, respectively, of total revenue for the nine months ended September 30, 2016, and 89% and 10%, respectively, of total revenue for the nine months ended September 30, 2015.

Approximately \$3 million of revenue for the nine months ended September 30, 2016 was associated with repurchased franchises, representing the incremental revenue associated with receiving all of the advisory fees rather than a royalty

percentage as a result of franchise acquisitions.

#### Professional Management Revenue

Professional management revenue increased \$75.0 million, or 36%, from \$206.5 million for the nine months ended September 30, 2015 to \$281.5 million for the nine months ended September 30, 2016. This increase was due primarily to an increase in the average AUM used to calculate fees from approximately \$109.9 billion for the nine months ended September 30, 2015 to approximately \$123.6 billion for the nine months ended September 30, 2016, as well as an increase in average basis points over the prior period as a result of client agreements associated with acquired assets. This increase in average AUM was driven by new assets from new and existing clients, new AUM of \$10.1 billion as measured on September 30, 2016 acquired through The Mutual Fund Store acquisition and market performance, partially offset by cancellations. Approximately \$67.9 million of professional management revenue for the nine months ended September 30, 2016 was associated with acquisitions.

## Platform Revenue

Platform revenue decreased \$1.8 million, or 8%, from \$23.1 million for the nine months ended September 30, 2015 to \$21.3 million for the nine months ended September 30, 2016. This decrease was due primarily to a small number of sponsor terminations, as well as platform fee reductions resulting from a small number of sponsors converting to a subadvisory plan provider. These decreases were partially offset by an increase in platform fees due to service availability at new sponsors.

## Other Revenue

Other revenue increased \$5.5 million, or 233%, from \$2.4 million for the nine months ended September 30, 2015 to \$7.9 million for the nine months ended September 30, 2016. This increase was due primarily to the addition of account servicing fee revenue and franchise royalty of \$5.5 million as a result of acquisition activity.

As we have acquired all remaining franchises, we no longer expect to have franchise royalty revenue subsequent to October 1, 2016.

## Costs and Expenses

Costs and expenses increased \$82.9 million, or 43%, from \$193.7 million for the nine months ended September 30, 2015 to \$276.7 million for the nine months ended September 30, 2016. Cost of revenue increased \$38.6 million, research and development expense increased \$1.3 million, sales and marketing expense increased \$15.6 million, general and administrative expense increased \$15.9 million, amortization of intangible assets increased \$7.5 million and we incurred a \$4.1 million loss on reacquired franchisee rights for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. Expenses increased during the nine months ended September 30, 2016 due primarily to increased personnel and operations related to the acquisitions.

Across all functional areas, employee-related expenses such as wages, cash incentive compensation expense and non-cash stock-based compensation expense increased primarily as a result of acquisition activity, which included the addition of approximately 330 new employees as of February 1, 2016.

## Cost of Revenue

Cost of revenue increased \$38.6 million, or 40%, from \$97.5 million for the nine months ended September 30, 2015 to \$136.1 million for the nine months ended September 30, 2016. There was a \$12.7 million increase in employee-related expenses, including wages, a \$2.1 million increase in cash incentive compensation expense and a \$2.0 million increase non-cash stock-based compensation for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015, due primarily to the majority of acquired employees categorized to cost of revenue as they are advisors and other employees associated with advisor center servicing activities. Variable cash compensation expense related to ongoing asset servicing activities by advisor center advisors resulted in an increase of \$8.3 million. Facilities-related overhead expenses, including rent and depreciation, also increased by \$8.9 million, due primarily to increased allocation based on headcount as well as increased facilities expenses related to the acquired advisor centers. In addition, there was a \$2.9 million increase in data connectivity fees due primarily to revisions to a provider relationship, which was signed in the third quarter of 2015, as well as an increase in professional management revenue. Non-capitalized equipment-related expenses increased \$1.5 million, business operations expenses increased \$0.5 million, consulting expenses increased \$0.3 million, hosting and production services increased \$0.3 million and a variety of other expenses increased \$0.6 million in total. These increases were partially offset by a \$1.5 million decrease in printed member and subadvisory marketing materials costs as we move more towards electronic delivery. As a percentage of revenue, cost of revenue increased from 42% for the nine months

ended September 30, 2015 to 44% for the nine months ended September 30, 2016. The increase as a percentage of revenue was due primarily to variable cash compensation expense for advisors, facilities-related overhead expenses and other employee-related expenses, including wages, increasing at a faster rate than revenue, partially offset by data connectivity fees increasing at a slower rate than revenue.

## Research and Development

Research and development expense increased \$1.3 million, or 5%, from \$26.5 million for the nine months ended September 30, 2015 to \$27.8 million for the nine months ended September 30, 2016. There was a \$2.8 million increase in employee-related expense, including wages, and a \$1.0 million increase in cash incentive compensation expense, due primarily to annual compensation increases and headcount growth, as well as a \$0.5 million increase in non-cash stock-based compensation expense for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. Facilities-related overhead expenses, including rent and depreciation, increased by \$0.3 million. These increases were partially offset by a \$2.0 million increase in the amount of internal use software capitalized, due primarily to increased labor rates and the number of hours dedicated to internal use software projects, and a \$1.3 million decrease in consulting expense. As a percentage of revenue, research and development expense decreased from 11% for the nine months ended September 30, 2015 to 9% for the nine months ended September 30, 2016. The decrease as a percentage of revenue was due primarily to employee-related expense, including wages, growing at a slower rate than revenue, as well as a decrease in consulting expenses.

## Sales and Marketing

Sales and marketing expense increased \$15.6 million, or 34%, from \$46.2 million for the nine months ended September 30, 2015 to \$61.9 million for the nine months ended September 30, 2016. There was a \$6.5 million increase in marketing programs expense, due primarily to radio and digital advertising, partially offset by amounts received for support of marketing and client acquisition efforts for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. There was a \$2.3 million increase in employee-related expense, including wages, a \$1.8 million increase in cash incentive compensation expense, due primarily to the addition of employees as the result of acquisition activity and annual compensation increases, as well as a \$1.2 million increase in non-cash stock-based compensation expense. Travel and entertainment expenses increased \$1.6 million due primarily to an annual national advisors conference. Consulting expenses increased \$2.7 million, due primarily to outside marketing services related mainly to brand and pricing evaluations. Facilities-related overhead expenses, including rent and depreciation, increased by \$0.7 million. These increases were partially offset by a \$0.9 million decrease in printed marketing materials expense as more printed marketing materials were expensed as incurred during the nine months ended September 30, 2015 as they did not qualify for capitalization per the accounting definition of direct response advertising, as well as a \$0.3 million decrease in other expenses. As a percentage of revenue, sales and marketing expense remained constant at 20% for the nine months ended September 30, 2015 and 2016.

## General and Administrative

General and administrative expense increased \$15.9 million, or 81%, from \$19.7 million for the nine months ended September 30, 2015 to \$35.6 million for the nine months ended September 30, 2016. There was a \$8.7 million increase in consulting and professional services expenses, due primarily to fees related to the acquisition of The Mutual Fund Store for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 when there was no acquisition activity. In addition, there was a \$3.2 million increase in employee-related expenses, including wages, and a \$1.9 million increase in cash incentive compensation expense, due primarily to the addition of employees as the result of acquisition activity, as well as annual compensation increases. There was also a \$1.0 million increase in non-cash stock-based compensation expense, due primarily to increases in headcount as a result of acquisition activity. In addition, there was a \$0.7 million increase in travel and entertainment expenses, a \$0.4 million increase in other equipment related expenses and a \$0.4 million increase in operating and other expenses. These increases were partially offset by a \$0.4 million decrease in facilities-related overhead expenses, including rent and depreciation. As a percentage of revenue, general and administrative expense increased from 9% for the nine months ended September 30, 2015 to 11% for the nine months ended September 30, 2016. The increase as a



percentage of revenue was due primarily to consulting and professional services expense increasing at a faster rate than revenue as the result of acquisition activity.

#### Amortization of Intangible Assets

Amortization of intangible assets increased \$7.5 million, or 203%, from \$3.7 million for the nine months ended September 30, 2015 to \$11.1 million for the nine months ended September 30, 2016, due primarily to the addition of amortization of customer relationships, trademarks and trade names associated with acquisition activity.

#### Loss on Reacquired Franchisee Rights

In the case of two franchises acquisitions, we assessed the fair value of these reacquired rights to be less than the purchase price based on market values of other recently reacquired franchisee rights. This resulted in an unfavorable reacquisition of these franchisee rights, resulting in a \$4.1 million loss for these transactions for the nine months ended September 30, 2016.

## Income Taxes

Income tax expense increased from \$13.6 million for the nine months ended September 30, 2015 to \$14.0 million for the nine months ended September 30, 2016. Our effective tax rate increased from 35% for the nine months ended September 30, 2015 to 42% for the nine months ended September 30, 2016. The effective tax rate increased due primarily to non-deductible expenditures incurred in connection with acquiring The Mutual Fund Store during the three months ended March 31, 2016. The lower effective tax rate for the nine months ended September 30, 2015 was due primarily to the recognition of tax benefits upon resolution of income tax uncertainties and changes in state taxes.

## Non-GAAP Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings Per Share

Adjusted EBITDA represents net income before net interest expense (income), income tax expense (benefit), depreciation, amortization of intangible assets, including internal use software, amortization and impairment of direct response advertising, amortization of deferred sales commissions, non-cash stock-based compensation expense, expenses related to the closing and integration of acquisitions and losses incurred on acquisitions, if applicable for the period. Adjusted net income represents net income before non-cash stock-based compensation expense, amortization of intangible assets related to assets acquired, including customer relationships, trade names and trademarks, expenses related to the closing and integration of acquisitions, losses incurred on acquisitions and certain other items such as the income tax benefit from the release of valuation allowances, if applicable for the period, partially offset by the related tax impact of these items. Adjusted earnings per share is defined as adjusted net income divided by the weighted average of dilutive common share equivalents outstanding.

Our management uses adjusted EBITDA, adjusted net income and adjusted earnings 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. In addition, management currently uses non-GAAP measures in determining cash incentive compensation.

We present adjusted EBITDA, adjusted net income and adjusted earnings per share as supplemental performance measures because we believe that these measures provide our Board of Directors, management and investors with additional information and greater transparency with respect to our performance and decision-making. We feel these performance measures provide investors and others with a better understanding and ability to evaluate our operating results and future prospects and provides the same performance measurement information as utilized by management. Adjusted EBITDA reflects the elements of profitability that can be most directly impacted by employees and our management believes that tracking this metric motivates executives to focus on profitable growth. Management believes it is useful to exclude non-cash stock-based compensation expense from our non-GAAP metrics because this expense is based upon the historical value of each award at the time of grant, which may not be reflective of the current compensation value, and the ongoing expense is outside of the control of management in the current reporting period. Adjusted EBITDA also excludes non-cash items such as depreciation and various types of amortization, as well as income taxes, which are largely non-cash at this point in time. We exclude expenses related to the closing and integration of acquisitions for comparability purposes as these are short-term in nature. Management believes it is useful to exclude these items as they do not necessarily reflect how our business is performing during the period reported. Adjusted net income and adjusted earnings per share exclude non-cash stock-based compensation expense, expenses related to the closing and integration of acquisitions, as well as losses incurred on acquisitions, for comparability purposes as these are short-term in nature, and amortization of intangible assets related to acquired assets including customer relationships, trade names and trademarks for comparability purposes. Adjusted EBITDA, adjusted net income and adjusted earnings per share are not measurements of our financial performance under GAAP and should not be considered as an alternative to net income, operating income, earnings per share or any other performance measures derived in accordance with GAAP, or as an alternative to cash flows from operating activities

as a measure of our profitability or liquidity.

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

- Adjusted EBITDA, adjusted net income and adjusted earnings per share do not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA, adjusted net income and adjusted earnings per share do not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA, adjusted net income and adjusted earnings per share do not reflect the non-cash component of employee compensation;

Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized generally required prior cash outlays and generally will have to be replaced in the future by payment of cash, and adjusted EBITDA does not reflect any cash requirements for such replacements; and

Other companies in our industry may calculate adjusted EBITDA, adjusted net income and adjusted earnings per share differently than we do, limiting their usefulness as a comparative measure.

Given the limitations associated with using adjusted EBITDA, adjusted net income and adjusted earnings per share, these financial measures should be considered in conjunction with our financial statements presented in accordance with GAAP and the reconciliation of adjusted EBITDA and adjusted net income to the most directly comparable GAAP measure, net income, and adjusted earnings per share to the most directly comparable GAAP measure, diluted earnings per share. Further, management also reviews GAAP measures and evaluates individual measures that are not included in adjusted EBITDA, such as our level of capital expenditures and equity issuance, among other measures.

The table below sets forth a reconciliation of net income to non-GAAP adjusted EBITDA based on our historical results:

	Three Months Ended		Nine Months Ended	
	September 30, 2015 2016		September 30, 2015 2016	
Non-GAAP adjusted EBITDA	(In thousands, unaudited)			
GAAP net income	\$8,477	\$7,147	\$24,878	\$19,519
Interest income, net	(119 )	(149 )	(263 )	(133 )
Income tax expense	5,723	4,376	13,649	14,031
Depreciation and amortization	1,539	2,363	4,484	6,670
Amortization of intangible assets (excluding internal use software)	—	2,710	—	7,301
Amortization of internal use software	1,139	1,187	3,433	3,518
Amortization and impairment of direct response advertising	1,406	1,122	4,132	3,547
Amortization of deferred sales commissions	453	413	1,217	1,244
Stock-based compensation	6,480	9,580	19,196	24,307
Acquisition-related expenses <sup>(1)</sup>	—	3,484	—	13,958
Loss on reacquired franchisee rights	—	4,092	—	4,092
Non-GAAP adjusted EBITDA	\$25,098	\$36,325	\$70,726	\$98,054

(1) We expect to incur acquisition-related expenses throughout 2016 and in the first quarter of 2017.

The table below sets forth a reconciliation of net income to non-GAAP adjusted net income based on our historical results:

Three Months Ended	Nine Months Ended
September 30,	September 30,

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Non-GAAP adjusted net income	2015	2016	2015	2016
	(In thousands, unaudited)			
GAAP net income	\$8,477	\$7,147	\$24,878	\$19,519
Stock-based compensation	6,480	9,580	19,196	24,307
Amortization of intangible assets (excluding internal use software)	—	2,710	—	7,301
Acquisition-related expenses	—	3,484	—	13,958
Loss on reacquired franchisee rights	—	4,092	—	4,092
Income tax expense from non-deductible transaction expenses <sup>(1)</sup>	—	—	—	1,162
Tax-effect of adjustments <sup>(2)</sup>	(2,475 )	(7,588 )	(7,333 )	(18,969 )
Non-GAAP adjusted net income	\$12,482	\$19,425	\$36,741	\$51,370

(1) This amount represents estimated additional income tax expense incurred in the period for non-deductible transaction expenses related to acquisition activity.

(2) An estimated statutory tax rate of 38.2% has been applied to eliminate the tax-effect for all periods presented.

The table below sets forth a reconciliation of diluted earnings per share to non-GAAP adjusted earnings per share based on our historical results:

	Three Months Ended		Nine Months Ended	
	September 30, 2015    2016		September 30, 2015    2016	
Non-GAAP adjusted earnings per share	(In thousands, except per share data, unaudited)			
GAAP diluted earnings per share	\$0.16	\$0.11	\$0.47	\$0.32
Stock-based compensation	0.12	0.15	0.36	0.39
Amortization of intangible assets (excluding internal use software)	—	0.04	—	0.12
Acquisition-related expenses	—	0.06	—	0.22
Loss on reacquired franchisee rights	—	0.07	—	0.07
Income tax expense from non-deductible transaction expenses <sup>(1)</sup>	—	—	—	0.02
Tax-effect of adjustments <sup>(2)</sup>	(0.04 )	(0.12 )	(0.14 )	(0.31 )
Non-GAAP adjusted earnings per share	\$0.24	\$0.31	\$0.69	\$0.83
Shares of common stock outstanding	51,655	61,838	51,586	60,608
Dilutive stock options, RSUs and PSUs	1,279	1,163	1,353	1,049
Non-GAAP adjusted common shares outstanding	52,934	63,001	52,939	61,657

(1) This amount represents estimated additional income tax expense incurred in the period for non-deductible transaction expenses related to acquisition activity.

(2) An estimated statutory tax rate of 38.2% has been applied to eliminate the tax-effect for all periods presented. For the non-GAAP metrics above, the variances in the comparable periods are consistent with the GAAP variances discussed in the comparisons of the three months ended September 30, 2015 and 2016 as presented above in our “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

We are currently estimating the remaining integration-related expenses in the fourth quarter of 2016 to be approximately \$5 million, and in the first quarter of 2017 to be \$5 million, excluding non-cash stock-based compensation expense, with an additional \$14 million incurred in the nine months ended September 30, 2016. These expenses will be added back to net income in the calculation of non-GAAP adjusted EBITDA and will be added back to net income in the calculation of non-GAAP adjusted net income. The related tax effect adjustment will be calculated using an estimated statutory tax rate of 38.2%.

## Liquidity and Capital Resources

### Sources of Liquidity

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As of September 30, 2016, we had total cash and cash equivalents of \$118.8 million, compared to \$345.2 million of cash, cash equivalents and short-term investments as of December 31, 2015. Since February 1, 2016, we have used approximately \$262.4 million of cash related to acquisitions. Over the next twelve months, and in the longer term, we expect that our cash and liquidity needs will be met by existing resources, consisting of cash and cash equivalents and cash generated from ongoing operations. We plan to use existing cash and cash generated in the ongoing operations of our business to fund our current operations and capital expenditures, as well as possible future acquisitions or other strategic activity, including the repurchase of remaining franchises in October 2016.

### Consolidated Cash Flow Data

	Nine Months Ended	
	September 30,	September 30,
	2015	2016
	(In thousands)	
Net cash provided by operating activities	\$51,380	\$49,314
Net cash used in investing activities	(32,180 )	(233,274 )
Net cash used in financing activities	(23,237 )	(2,450 )
Net decrease in cash and cash equivalents	\$(4,037 )	\$(186,410)
Cash and cash equivalents, end of period	\$122,527	\$118,806

## Operating Activities

Net cash provided by operating activities for the nine months ended September 30, 2016 of \$49.3 million was the result of net income of \$19.5 million and adjustments for non-cash expenses of \$42.1 million, primarily related to non-cash stock-based compensation expense, amortization of intangible assets, deferred tax assets, depreciation, and amortization and impairment of direct response advertising, as well as the excess tax benefit associated with non-cash stock-based compensation. In addition, there was a decrease in cash related to changes in operating assets and liabilities of \$12.3 million. This decrease in cash related to operating assets and liabilities was due primarily to an increase in accounts receivable, prepaid expenses and other assets due primarily to acquisition activity and a decrease in accrued compensation as a result of the 2015 cash incentive program payments, partially offset by an increase in accounts payable, deferred revenue and deferred rent due primarily to acquisition activity.

We expect to incur cash payments totaling approximately \$4 million in the first quarter of 2017 associated with a change to our paid time off program for exempt employees as of December 31, 2016.

Net cash provided by operating activities for the nine months ended September 30, 2015 of \$51.4 million was the result of net income of \$24.9 million and adjustments for non-cash expenses of \$9.5 million, primarily related to amortization of non-cash stock-based compensation, depreciation, amortization and impairment of direct response advertising, and amortization of internal use software, as well as the excess tax benefit associated with stock-based compensation. In addition, there was an increase in cash related to changes in operating assets and liabilities of \$17.0 million. The increase in cash related to operating assets and liabilities was due primarily to an increase in accounts payable due primarily to an increase in excess tax benefit associated with stock-based compensation, partially offset by an increase in accounts receivable as revenue increased and direct response advertising costs capitalized in the period.

## Investing Activities

Net cash used in investing activities was \$233.3 million for the nine months ended September 30, 2016 compared to \$32.2 million for the nine months ended September 30, 2015. For the nine months ended September 30, 2016, cash paid for acquisitions, net of cash received, was \$262.4 million. The purchase of property and equipment increased \$1.4 million, as we spent \$5.5 million related to capital expenditures during the nine months ended September 30, 2016 which included capital equipment purchases related to the build out of the new Overland Park, Kansas facility, compared to \$4.1 million for the nine months ended September 30, 2015. For the nine months ended September 30, 2016, the amount of internal use software costs we capitalized increased to \$5.3 million compared to \$3.6 million for the nine months ended September 30, 2015. Cash provided by the sale of short-term investments was \$39.9 million for the nine months ended September 30, 2016.

On February 1, 2016, we completed the acquisition of The Mutual Fund Store for approximately \$241.0 million in cash consideration, net of \$5.0 million cash acquired, and approximately \$267 million in common stock consideration, subject to certain closing and post-closing adjustments.

In April 2016, we completed the acquisition of seven franchises for approximately \$13.6 million in cash consideration, net of \$0.8 million in holdbacks. In July and August 2016, we completed the acquisition of six franchises for approximately \$7.8 million in cash consideration, net of \$0.3 million in holdbacks. In October 2016, we completed the acquisition of the remaining eight franchises for approximately \$12.8 million in cash consideration, subject to certain closing and post-closing adjustments.

## Financing Activities



Net cash used in financing activities was \$2.5 million for the nine months ended September 30, 2016 compared to \$23.2 million for the nine months ended September 30, 2015. For the nine months ended September 30, 2016, we received \$3.4 million of proceeds from the issuance of common stock due to the exercise of stock options compared to \$8.3 million during the nine months ended September 30, 2015. Excess tax benefit associated with stock-based compensation were \$9.6 million for the nine months ended September 30, 2016 compared to \$17.9 million for the nine months ended September 30, 2015 due to a decrease in the amount of stock-based compensation offsetting cash income taxes. During the nine months ended September 30, 2016, we also paid \$1.8 million for primarily previously withheld consideration for franchises acquired by The Mutual Fund Store prior to February 1, 2016.

On November 5, 2014, our Board of Directors approved a stock repurchase program of up to \$50.0 million of our common stock over the subsequent twelve months. We used \$38.5 million of cash to repurchase our common stock in the nine months ended September 30, 2015. The stock purchase program expired on November 4, 2015. The stock repurchase program was funded by available working capital.

For the nine months ended September 30, 2016, we incurred cash dividend payments totaling \$12.9 million compared to cash dividend payments totaling \$10.4 million for the nine months ended September 30, 2015. In October 2016, we incurred a subsequent payment of \$3.7 million relating to dividends payable as of September 30, 2016, and we do not expect any additional dividend payments through December 31, 2016. Any future determination with respect to the declaration and payment of dividends will be at the discretion of our Board of Directors.

We expect to incur cash payments in an amount necessary to satisfy the minimum tax withholding obligations for restricted stock units previously granted to employees, which will be determined based on the fair value of our common stock and applicable tax rates on the vesting dates. For the nine months ended September 30, 2016, we incurred \$0.7 million of cash payments related to minimum tax withholding obligations compared to \$0.6 million for the nine months ended September 30, 2015. Based on the fair value of our common stock as of September 30, 2016 of \$29.71 and assuming a 40% tax rate, the estimated minimum tax withholding obligations would be approximately \$2.5 million for the period October 1, 2016 to December 31, 2016. We anticipate these cash payments to occur throughout each year with the largest amounts typically occurring in the first and fourth quarters, and with the payment amounts determined by the number of shares released, the fair value of our common stock and applicable tax rates at that point in time.

#### Off-Balance Sheet Arrangements

As of September 30, 2016, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K promulgated by the SEC, that have or are reasonably likely to have a current or future effect on our financial condition, changes in our financial condition, revenues, or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to investors.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

#### Market Risk

Our exposure to market risk is directly related to our role as an investment manager for investor accounts for which we provide portfolio management services. For the nine months ended September 30, 2016, 91% of our revenue was derived from fees based on the market value of AUM compared to 89% for the year ended December 31, 2015. In general, we expect the percentage of revenue that is derived from fees based on the market value of AUM to increase over time.

A substantial portion of the assets we manage is invested in equity securities, the market prices of which can vary substantially based on changes in economic conditions. An additional portion is invested in fixed income securities, which will generally have lower volatility than the equity market. Therefore, while any changes in equity market performance would significantly affect the value of our AUM, particularly for the AUM invested in equity securities, such changes would typically result in lower volatility for our AUM than the volatility of the equity market as a whole. Because a substantial portion of our revenue is derived from the value of our AUM, any changes in fixed income or equity market performance would significantly affect the amount of revenue in a given period. If any of these factors reduces our AUM, the amount of client fees we would earn for managing those assets would decline, which in turn could negatively impact our revenue.

For DC professional management revenue, fees are calculated at or near the end of each month. We expect this monthly methodology potentially reduces the impact of financial market volatility on this portion of our professional management revenue. For IRA and taxable professional management revenue, fees are calculated at the end of each quarter. We expect this quarterly methodology potentially results in greater impact of financial market volatility on this portion of our professional management revenue.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (or the Exchange Act)) as of the end of the period covered by this report. Based on their evaluation, our Chief Executive Officer (our principal executive officer) and our Chief Financial Officer (our principal financial officer) have concluded that our disclosure controls and procedures as of the end of the period covered by this report were designed and were functioning effectively at the reasonable assurance level.

#### Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. The Company acquired The Mutual Fund Store on February 1, 2016 and is in the process of reviewing The Mutual Fund Store's internal control structure. If necessary, the Company will make appropriate changes as it continues to integrate this acquisition into the Company's overall internal control over financial reporting processes.

## PART II — OTHER INFORMATION

### Item 1A. Risk Factors

You should carefully review and consider the information regarding certain factors that could materially affect our business, financial condition or future results set forth under Part I—Item 1A (Risk Factors) in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015. There have been no material changes from the risk factors disclosed in our 2015 Annual Report on Form 10-K.

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

#### Unregistered Sales of Equity Securities

For the three months ended September 30, 2016, we issued 55,879 shares of unregistered common stock for an aggregate purchase price of \$0.4 million upon the exercise of previously granted options, which was paid in cash. These transactions were effected under Rule 701 of the Securities Act of 1933, applicable to our 1998 Stock Option Plan. All recipients either received adequate information about us or had access, through employment or other relationships, to such information. There were no underwriters employed in connection with these transactions.

Item 6. Exhibits

Exhibit

Number Description

- 2.1 Agreement and Plan of Mergers, dated as of November 5, 2015 by and among Financial Engines, Inc., Mayberry Acquisition Sub I, LLC, Mayberry Acquisition Sub, Inc., Mayberry Acquisition Sub II, LLC, Kansas City 727 Acquisition Corporation, TMFS Holdings, Inc., Kansas City 727 Acquisition LLC, and, solely in its capacity as representative of the Sellers, WP Fury Holdings, LLC (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed November 9, 2015, and incorporated herein by reference) and First Amendment thereto, dated as of February 1, 2016 (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed February 3, 2016, and incorporated herein by reference).\*
- 3.(i) Restated Certificate of Incorporation of the Registrant (filed as Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, and incorporated herein by reference).
- 3.(ii) Bylaws of the Registrant (filed as Exhibit 3.(ii)2 to the Registrant's Registration Statement on Form S-1, file no. 333-163581, and incorporated herein by reference).
- 4.1 Specimen Common Stock Certificate (filed as Exhibit 4.1 to the Registrant's Registration Statement on Form S-1, file no. 333-163581, and incorporated herein by reference).
- 10.1# Financial Engines, Inc. Amended and Restated 2009 Stock Incentive Plan.
- 31.1 Certificate of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
- 31.2 Certificate of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
- 32.1(1) Certificate of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
- 32.2(1) Certificate of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
- 101.INS XBRL Instance Document
- 101.SCH XBRL Schema Document
- 101.CAL XBRL Calculation Linkbase Document
- 101.DEF XBRL Definition Linkbase Document
- 101.LAB XBRL Label Linkbase Document

101.PRE XBRL Presentation Linkbase Document

- (1) The material contained in Exhibit 32.1 and Exhibit 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 (the Securities Act) or the Exchange Act, 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.
- (#) Indicates management contract or compensatory plan or arrangement.
- (\*) Financial Engines hereby undertakes to furnish supplementally a copy of any omitted schedule or exhibit to such agreement to the U.S. Securities and Exchange Commission upon request.

SIGNATURES

Pursuant to the requirements 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.

Date: November 3, 2016

FINANCIAL ENGINES, INC.

/s/ Lawrence M. Raffone  
Lawrence M. Raffone  
President and Chief Executive Officer  
(Duly authorized officer and principal executive officer)

/s/ Raymond J. Sims  
Raymond J. Sims  
Executive Vice President, Chief Financial Officer  
(Duly authorized officer and principal financial officer)

/s/ Jeffrey C. Grace  
Jeffrey C. Grace  
VP, Controller and Principal Accounting Officer  
(Duly authorized officer and principal accounting officer)



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