Financial Engines, Inc.
Form 10-K
February 19, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

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, California 94089

(Address of principal executive offices, Zip Code)

(408) 498-6000

(Registrant's telephone number, including area code)

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

Common Stock, $0.0001 par value per share	The NASDAQ Stock Market LLC

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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 x No o

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 x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to Form 10-K. x

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

Large accelerated filer x	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 o No x

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $972,344,000 based upon the closing price of $42.48 of such common stock on The NASDAQ Global Select Market on June 30, 2015 (the last business day of the registrant's most recently completed second fiscal quarter). Shares of common stock held as of June 30, 2015 by each director and executive officer of the registrant, as well as shares held by each holder of 5% of the common stock known to the registrant, have been excluded for purposes of the foregoing calculation. This determination of affiliate status is not a conclusive determination for other purposes.

As of January 31, 2016, there were 51,699,398 shares of common stock of the registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Proxy Statement for the Annual Meeting of Stockholders (the "Proxy Statement") to be held on May 17, 2016, and to be filed pursuant to Regulation 14A within 120 days after registrant's fiscal year ended December 31, 2015 are incorporated by reference into Part III of this Report.

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PART I

Item 1. Business

This Report contains forward-looking statements that involve risks and uncertainties. The forward-looking statements are contained principally in the sections entitled "Business," "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." In some cases, you can identify forward-looking statements by terms such as "may," "might," "will," "objective," "goal," "intend," "should," "could," "can," "would," "expect," "believe," "designe "predict," "potential," "plan," or the negative of these terms, and similar expressions intended to identify forward-looking statements. 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; our ability to successfully integrate the business of The Mutual Fund Store with our existing business; the potential impact of the acquisition of The Mutual Fund Store on our financial condition and operating results, including our revenue and expenses; the expectation that the acquisition will enable us to provide financial planning services and dedicated in-person advisors at over 125 locations; the relationship with Wells Fargo, including the anticipation that the data connections necessary to provide services will be operative in 2016; our expectations that we will continue to earn on a combined basis, a significant portion of our revenue through our subadvisory relationships; our research program, including our belief that it can help form the basis of extensions to our investment methodology and can expand opportunities to manage assets for participants; our competitive position; our expectations regarding our expenses and revenue; our effective tax rate, our deferred tax assets, our anticipated cash needs and our estimates regarding our capital requirements and our needs for additional financing; our ability to retain and attract customers; our regulatory environment; our ability to recruit and retain professionals; volatility of our stock price; our expectations regarding the amounts, timing and frequency of any payment of dividends; our expectations for granting equity awards, and the potential financial and accounting impact related thereto;; impact of our accounting policies; benefit of non-GAAP financial measures; our disclosure controls and procedures; our legal proceedings; intellectual property; our expectations regarding competition; and sources of revenue. 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 1, "Business" and 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. Our investment advisory and management services are provided through our 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 federally registered investment advisor. 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. Item 1 describes the Financial Engines business as of December 31, 2015, unless noted otherwise.

FINANCIAL ENGINES®, INVESTOR CENTRAL®, RETIREMENT HELP FOR LIFE®, the Financial Engines logo and a sun and cloud design mark are all trademarks or service marks owned by Financial Engines, Inc., registered in the United States or other countries. The marks ADVICE LIGHT and "Financial Engines Investment Advisor" are also trademarks owned by Financial Engines, Inc. All other trademarks, service marks and trade names appearing in this filing are the property of their respective owners.

Our Company

We are a leading provider of independent, technology-enabled portfolio management services, investment advice and retirement income services primarily to participants in employer-sponsored defined contribution plans, such as 401(k) plans. We help investors plan for retirement by offering personalized plans for saving, investing, and generating retirement income, as well as by providing assessments of retirement income needs and readiness, regardless of personal wealth or investment account size. Financial Engines® Income+, a feature of our portfolio management service, is designed to prepare a portfolio to generate income in retirement, and calculates and facilitates the payment of steady recurring payouts throughout retirement. We use our proprietary advice technology platform to provide our services to millions of retirement plan participants on a cost-efficient basis. We believe that our services have significantly lowered the cost and increased the accessibility to plan participants of independent, personalized portfolio management services, investment advice and retirement income planning.

To expand our independent advisory services, on February 1, 2016, we acquired The Mutual Fund Store for approximately $250 million in cash and 9,885,889 shares of our common stock. We believe that the acquisition will enable us to expand our independent advisory services to 401(k) participants through comprehensive financial planning and the option to meet face-to-face with a dedicated financial advisor at one of more than 125 national locations.

Our business model is based primarily on workplace delivery of our services. We target three key constituencies in the retirement plan market: plan participants (employees of companies offering 401(k) plans), plan sponsors (employers offering 401(k) plans to their employees) and plan providers (companies providing administrative services to plan sponsors). We provide the following benefits for each of these constituencies:

- Plan Participants: For retirement plan participants, we provide personalized, unconflicted advice and management services unique to each individual's specific investment needs and goals. We offer the following principal services:
- Professional Management is a discretionary managed account service designed for plan participants who want affordable, personalized and professional portfolio management services, investment advice and retirement income services from an independent investment advisor without the conflicts of interest that can arise when an advisor offers proprietary products. With this service, we provide discretionary management of the participant's plan assets and make investment decisions on behalf of the participant. Plan sponsors choosing to make our Professional Management service available typically also make available our Online Advice service. In some cases, we provide this service by acting as a subadvisor to a plan provider acting as the investment manager to plan participants. Financial Engines® Income+ is a feature of Professional Management that manages portfolios to generate income, and calculates and facilitates the potential payment of steady recurring payouts from those portfolios in retirement, for plans where Income+ is available, we also provide Social Security claiming guidance and retirement income planning.
- Online Advice is an Internet-based non-discretionary investment advisory service designed for plan participants who manage their portfolios directly and want to receive personalized investment advice, including Social Security claiming guidance for participants at plans where Income+ is available. With this service, plan participants review our investment recommendations and may elect to follow or not follow the advice. In some cases, we provide this service by acting as a subadvisor to a plan provider acting as the investment advisor to plan participants.
- Retirement Evaluation is a retirement readiness assessment, typically provided to plan participants upon rollout and periodically thereafter, together with Professional Management enrollment materials.
- Social Security claiming guidance is available online and through registered Investment Advisor Representatives and is offered for plans where Income+ is available. The service is available at no additional cost to help participants nearing retirement better understand their Social Security claiming options.
- Plan Sponsors: For retirement plan sponsors, our services are designed to improve employee satisfaction and reduce fiduciary and business risk by evaluating, disclosing and addressing investment and savings decisions by plan

participants, and by providing an opportunity for cost-effective, steady lifetime payouts in retirement.

- Plan Providers: For retirement plan providers, our services can represent a cost-effective method of providing personalized, independent investment advice that can be an attractive and increasingly necessary service for the largest plan sponsors. Providing these services helps plan providers compete more effectively in the large plan market.

We deliver our services to plan sponsors and plan participants primarily through connections to eight retirement plan providers, and we have connectivity with Charles Schwab to support a relatively small number of plan sponsors. We anticipate establishing a connection with Wells Fargo as a provider in 2016. We target large plan sponsors across a wide range of industries. As of December 31, 2015, we were under contract to provide our services to approximately 9.3 million plan participants. We provide Professional Management services to 670 plan sponsors representing approximately 9.3 million participants and approximately $987 billion of assets in retirement plans for which we have rolled out our Professional Management service, which we refer to as Assets Under Contract, or AUC and had approximately $113.4 billion in assets under management, or AUM. Our AUC does not include assets in plans for which we have signed contracts but have not yet rolled out our Professional Management service. Assets are included in AUM once plan participants actively or passively enroll in Professional Management. The assets underlying our Online Advice only service are not included in AUC. We do not derive revenue based on AUC but believe that AUC can be a useful indicator of the additional plan assets available for enrollment efforts that, if successful, result in these assets becoming AUM. Since we began offering the Online Advice service, more than 3.3 million participants have accepted our online services agreement.

Our business model is characterized by subscription-based, recurring revenue. When providing advisory services directly, we enter into contracts with plan sponsors. Our revenue is derived from both Professional Management member fees and platform fees, as described in the “Revenue” section.

Market Trends

We believe the following key market trends will continue to drive the growth of our business and increase the value of our service offerings. Changes in these trends can have negative implications for our business prospects.

Shifting Demographics Drive a Growing Need for Retirement Help. The ongoing growth in retirement assets, especially 401(k) assets, is driven in part by individuals seeking to supplement retirement funds they expect to receive from Social Security and corporate defined benefit plans. The 78 million baby boomers, or individuals born between 1946 and 1964, represent the largest population cohort in American history. Beginning in January 2011, more than 10,000 baby boomers turned 65 every day and this pattern will continue through 2029. The U.S. Census estimates that in 2030 there will be 60 million people in this cohort and one in five Americans will be age 65 or older.

Growing Reliance on Defined Contribution Plans. As employer-sponsored retirement plans shift from defined benefit plans to defined contribution plans, the responsibility for making retirement investment decisions shifts from professional pension fund managers to individual investors.

Changing Legal and Regulatory Framework. As the burden of retirement investing shifts to the individual, we believe that there is an increasing need for assistance and guidance on how to invest for retirement wealth. However, plan sponsors may be reluctant to make investment advice available to employees for fear of increased fiduciary or legal risk. We believe the Pension Protection Act of 2006 and subsequent Department of Labor regulations reduced these concerns by further supporting the existing foundation for professional asset management of 401(k) accounts. Adherence to these new guidelines provides specific safeguards to plan sponsors from fiduciary and legal risk. Furthermore, policymakers are taking a close look at how to facilitate turning retirement savings into retirement income. The Department of Labor and the Treasury Department are exploring ways of facilitating access to and utilization of products and services designed to help provide retirement income within 401(k) plans.

Employers Providing More Retirement Help to Employees. An increasing number of employers have been making investment advisory services available to their participants, automatically enrolling new employees into the company’s 401(k) plan or automatically escalating deferral rates. As a result of the Pension Protection Act of 2006 and Department of Labor guidelines, plan sponsors are now seeking automatic retirement savings solutions for their employees.

Products and Services

We provide personalized portfolio management services, investment advice and retirement income services to plan participants through plan providers. Our services address some of the most important questions and concerns faced by plan participants as they prepare for retirement, including:

- "How should I invest my money?"
- "When can I retire?"
- "How much can I spend in retirement and not run out of money?"

Professional Management. Our Professional Management service, a discretionary managed account service launched in 2004, is designed for 401(k) participants who want affordable, personalized and professional portfolio management, investment advice and retirement income services from an independent investment advisor with no product conflicts of interest. With this service, plan participants delegate investment decision-making authority to us, which is referred to as discretionary authority. We developed our Professional Management service to reach a large number of plan participants on a cost-effective basis and assist them on the path to a secure retirement. When plan participants enroll in our Professional Management service, we use our Advice Engines to create personalized, diversified portfolios and provide ongoing management. Our investment management is limited to the investment alternatives available in a 401(k) plan, (including any employer stock, as determined and approved by a plan fiduciary other than us), although we do take into account other identified holdings of the plan participant when providing investment management.

Members enrolled in the Professional Management service receive a Retirement Plan, which analyzes their investments, contribution rate and projected retirement income. The Retirement Plan provides advice on their annual contribution amount, shows how we propose to allocate their investments, and forecasts their retirement income relative to a retirement goal. Members are encouraged to provide their desired retirement age, risk preference, employer stock holding preference and information regarding certain other assets that they hold outside of their 401(k) accounts. Any personal information provided is used to customize a new portfolio allocation that is reflected in a revised Retirement Plan. The Professional Management program includes non-discretionary advice on non-managed, tax-deferred retirement accounts outside of the sponsored 401(k), which we call Total Retirement Advice. Total Retirement Advice is available at no additional cost to members at select direct plan sponsors, and provides access to an advisor who can provide personalized investment recommendations on a member’s IRA and other 401(k) accounts. Member portfolios are reviewed at least monthly and transactions are executed through the applicable provider, if necessary, to reallocate the investments. Members also receive a quarterly Retirement Update that shows how they are progressing towards their retirement goals and describes any changes that we have made to their investment allocations.

Members can, at any time during our business hours, call one of our Advisor Center employees who are registered in various states through the Investment Adviser Registration Depository as Investment Advisor Representatives, or log in to a website to check their progress or further tailor their portfolio to their personal circumstances. Members are periodically offered a Retirement Checkup during phone-based conversations with an Investment Advisor Representative. During the Retirement Checkup, the Investment Advisor Representative confirms the member’s retirement goal, reviews the member’s retirement income forecast and helps the member close the gap, if any, by exploring the impact of increasing savings or adjusting the member’s retirement age. Sub-advised plan providers also maintain call centers to support participants in the plans record-kept by that provider.

We also offer Income+, a feature of our Professional Management service that provides retirement income for 401(k) participants. We designed Income+ to provide discretionary portfolio management with an income objective and to provide participants with steady monthly payouts from their 401(k) accounts during retirement. Early in retirement, Income+ provides payouts from the 401(k) assets. Later in retirement, it is designed to enable participants to obtain a lifetime income guarantee by drawing upon the 401(k) assets to make an optional annuity purchase outside of the plan. We do not provide the annuity. With Income+, members can contact an Investment Advisor Representative to start payouts, stop payouts, or make additional withdrawals from their 401(k) accounts so they have access to their savings as needed. With Income+, members receive Retirement Plans that show how we plan to allocate their investments as well as quarterly Retirement Updates that show any changes we have made to their investment allocations. If the member has requested payouts, the Retirement Plan also shows the current payout amount and the planned payout schedule, and the Retirement Update presents the history of recent payouts. If the member has not yet requested payouts, the statements will show the member’s estimated total income at retirement, considering various income sources such as Social Security, defined benefit, or other 401(k) plan accounts. Members with Income+ can also discuss their total retirement income picture with an Investment Advisor Representative.

Social Security claiming guidance is available online and through registered Investment Advisor Representatives for all plans where Income+ is available. The service is available at no additional cost to participants at select plan sponsors and helps participants nearing retirement better understand their Social Security claiming options by creating personalized strategies that account for single individuals, divorced individuals, spouses, multiple income sources and realistic life expectancies.

We do not currently charge Professional Management members or sponsors any additional fees for the Income+ feature. We do not currently issue, sell, distribute, or solicit the sale of annuities or other insurance products or services, nor do we receive, accept or charge fees, payments or commissions related to any purchases of insurance products or services. Income+ availability does not require an in-plan annuity or changes to the plan's fund line-up. As a feature of Professional Management, Income+ was designed to reduce fiduciary risk for sponsors by eliminating the need for an irrevocable selection of a guarantee or annuity provider. Income+ availability is subject to establishment of data connectivity between Financial Engines and the applicable plan provider, and is also subject to applicable retirement plan provisions related to plan withdrawals. As of December 31, 2015, 145 plan sponsors have made Income+ available to their participants, representing more than $325 billion in assets under contract and more than 3.4 million participants. As of December 31, 2015, we had 293 Income+ plan sponsor contracts, including the aforementioned 145 plan sponsors where Income+ has been made available to participants and 148 plan sponsors for which the service has not yet been made available, representing a total of more than $477 billion of retirement assets and 4.9 million participants. Our current Income+ connections are with Aon Hewitt, Fidelity, Mercer, Advised Assets Group, LLC, operating under the brand identity Empower Retirement™, Vanguard, Voya Retirement Advisors, LLC, or Voya, and Xerox.

Certain of the plan sponsors offering Income+ are also doing so on a Passive Enrollment basis, in which eligible plan participants over a specified age will be enrolled into Professional Management with Income+ unless the individuals decline the service, or opt out. Beginning in 2014, we expanded our Income+ feature to reflect multiple sources of retirement income and savings.

Our services also include IRA Management, which includes the Income+ capability, for members and their spouses on custodial platforms with Charles Schwab and TD Ameritrade. We may establish connections with additional IRA providers to extend our open-architecture platform. In the near-term, IRA Management will be offered only to Professional Management members at select sponsors in the Financial Engines direct channels. We are proceeding with further validation and testing of a broader retirement management offering.

Online Advice. Our Online Advice service, launched in 1998, is a nondiscretionary Internet-based service designed for plan participants who wish to take a more active role in personally managing their portfolio. With this service, plan participants may elect to follow the online advice without delegating investment decision-making and trading authority to us, making this a nondiscretionary service. This Internet-based service includes interactive access to simulation and portfolio optimization technologies through our Advice Engines. Plan participants see a forecast that shows how likely they are to reach their desired retirement goals, get recommendations on which investments to buy or sell and simulate how their portfolios might perform under a wide variety of economic scenarios. They can also explore different levels of investment risk, savings amounts and retirement horizons, as well as get tax-efficient advice on accounts other than their 401(k) accounts. The service offers investment advice on the fund options available in a 401(k) plan and can also offer advice on the investment options available in other non-plan sponsored accounts. The Online Advice service is integrated with single sign-on to the plan provider's 401(k) website, which enables data pre-population and, typically, the ability to initiate transactions directly from the Online Advice service. A version of the service is also available to retail investors directly through our website. In addition, our Online Advice users have the opportunity to access one of our Investment Advisor Representatives by phone if they wish.

Retirement Evaluation. When Professional Management is being offered in a plan, we typically send each eligible plan participant a Retirement Evaluation or similar retirement readiness assessment upon rollout or periodically thereafter, together with Professional Management enrollment materials. Retirement Evaluations highlight specific risks in a plan participant's retirement account, provide guidance on how to reduce those risks and introduce our services as a means of obtaining help in addressing these issues. Retirement Evaluations are based on data provided by the plan provider and in some cases, supplemental data provided by the plan sponsor, plan participant, or other data providers. Retirement Evaluations include an evaluation of how well the plan participant is investing and saving in the retirement plan. Specifically, the evaluation considers key aspects of how the individual plan participant is using the 401(k) account, typically including investment decisions (risk, diversification, employer stock concentration) and contribution rate. We continue to implement the integration of personalized online assessments of certain types of investing risks into plan providers' websites. This integration allows participants who log onto the provider website to view personalized assessments of their portfolio online and to learn more about our services.

Expand Beyond Workplace Defined Contribution Plans. We continue to develop new market opportunities in the retirement income market, including opportunities to help individual investors with their existing or new IRA accounts. We are now able to take into consideration multiple sources of retirement income and savings, and have also been working with providers, sponsors and participants to develop ways to help participants with their broader household retirement picture.

Revenue. We derive nearly all of our revenue from Financial Engines Advisors L.L.C.'s investment advisory and management services through our contracts with plan providers, plan sponsors and plan participants. AUM is defined as the amount of retirement plan assets that we manage as part of our Professional Management service. We generate revenue primarily from member fees on AUM as well as from platform fees, by providing portfolio management services, investment advice and retirement income services to plan participants of employer-sponsored retirement plans. We derive professional management revenue from member fees typically paid by plan participants for our Professional Management service. Where we have a direct advisory relationship, member fees are generally payable quarterly in arrears, and are calculated monthly as the product of member fee rates and the value of AUM at the end of each month. . We derive our platform revenue from recurring, annual subscription-based fees for access to our services, including Professional Management, Online Advice and Retirement Evaluations. Platform fees are paid by the plan sponsor, plan provider or the retirement plan itself, depending on the plan structure, and are typically based on the number of eligible employees in the plan and the type of service provided.

None of our fees are 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 member's account.

Our total revenue was $239.0 million, $281.9 million and $310.7 million for the years 2013, 2014 and 2015, respectively. We generated professional management revenue of $202.8 million, $245.8 million and $277.2 million for the years 2013, 2014 and 2015, respectively and we generated platform revenue of $33.5 million, $33.1 million and $30.8 million for the years 2013, 2014 and 2015, respectively. We have historically earned, and expect to continue to earn on a combined basis, a significant portion of our revenue through our subadvisory relationships. Please refer to the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section for additional revenue information.

Investment Process and Methodology

Our goal is to apply investment techniques traditionally available only to large, sophisticated investors to help individual investors achieve their retirement goals. Our advice services incorporate several of the methodologies developed by our co-founder and economics Nobel Laureate, Professor William F. Sharpe. We use Monte Carlo simulation and proprietary optimization techniques to provide plan participants with cost-effective, sophisticated, personalized and unconflicted advice. Monte Carlo simulation is widely used in investment management and is a statistical technique in which many simulations of an uncertain quantity are run to model the distribution of possible outcomes.

When providing simulations and investment recommendations, our methodology evaluates a variety of factors that impact investment returns, including fees, portfolio turnover, management performance, tax-efficiency, and a fund's investment style where we identify the underlying asset class exposures and active management risk associated with asset allocation changes by a fund manager in response to market conditions and decisions to weight specific security holdings differently than comparable indices. By modeling the characteristics of specific investment alternatives, we are able to provide quantitative estimates of possible future outcomes and make investment recommendations. We are also able to model the complexities found in large retirement plans and to provide investment advice to plan participants that can be implemented within the limits of a given plan's available options.

Unlike traditional advisory services, we do not rely on the subjective evaluation of each plan participant's portfolio by a human investment advisor. Instead, our services rely on Advice Engines (described below under "Investment Technology") that accept inputs on available investment choices along with a variety of personal information including investment objective, risk tolerance, investment horizon, age, savings, outside personal assets, investor preferences and tax considerations. This approach results in a consistent, systematic and objective investment methodology in which the advice generation is distinct from the method of delivery, which may be online, via printed materials or through phone conversations with our registered Investment Advisor Representatives or the call center representatives of certain plan providers with whom we have relationships. Registered Investment Advisor Representatives can modify member inputs but not Advice Engine outputs and recommendations. This process is designed to create advice that is personalized and consistent regardless of the asset balance of the plan participant, or the channel through which the plan participant receives our advice. This process also facilitates investment recommendations which are consistent across plan providers, plan sponsors and plan participants. Finally, this approach enables a detailed audit trail of the recommendations provided to each plan participant over time to assist with regulatory responsibilities.

To maintain the quality of our investment recommendations, our Advice Engines incorporate a wide variety of automated checks and validation procedures. These procedures are overseen by multiple groups within our Investment Management and Service Delivery organizations and help verify that the data inputs into our systems are timely and accurate, and that the resulting investment recommendations reflect the correct application of our investment methodology.

Our investment recommendations for workplace accounts are limited to the investment alternatives available in a 401(k) plan (as determined and approved by a plan fiduciary other than us), although we do take into account other identified holdings of the plan participant when offering investment advice. With the exception of employer stock, if any, included as an investment alternative, we do not provide advice on or manage single-company securities. We do not consult with, or make recommendations to, the plan sponsor regarding which investment alternatives to make available in its 401(k) plan.

We offer no proprietary investment products, which keeps us free of the conflicts of interest, or the perceptions of conflicts of interest, that can arise for competitors who offer such products. We do not receive differential compensation based on the investments we recommend. We do not hold assets in custody or execute trades.

We have a single investment methodology that is consistently applied across all member accounts. We create diversified portfolios for each member from the investment choices available in a plan with the goal of balancing potential returns consistent with the client’s investment objective, investment horizon, other financial assets and risk preferences. A client’s investment objective, either accumulation or generating retirement income, helps determine the structure of the optimized portfolios.

For members with Income+, the investment portfolios are structured to provide the potential for steady income payouts throughout retirement. The Income+ optimization methodology shares similarities with bond immunization and liability-driven investing (LDI), practices used by pension funds. LDI strategies involve structuring asset portfolios to match certain liabilities in the future. In the context of an individual participant, this means developing an investment strategy that is designed to deliver desired annual income payouts with a predetermined statistical confidence level. To have sufficient confidence in a future payout, it is desirable to immunize the liability against possible changes in interest rates and the stock market. Using the fixed income options available in the plan, the Income+ optimization structures a portfolio that matches the duration of assets with the specific income stream desired by that participant.

To accomplish this objective, the Income+ optimization approach divides the portfolio into three components. The first portion of the assets is used to structure a fixed income portfolio from the options in the plan that best match the duration of the income payments through age 85. A second portion of assets is set aside to enable the optional future purchase of an annuity outside of the plan that can maintain the income payments for life. Income+ allows participants to purchase such an annuity up to the age of 85. We do not provide any of these annuities or other financial products. Finally, a third portion of assets is invested in a diversified mix of equities to provide growth potential and to help the payouts keep up with inflation. Over time, the equities are gradually converted into additional fixed income assets to support a higher floor.

We maintain an ongoing research program to improve and extend our investment methodologies as well as our portfolio management and investment advisory services. We conduct research into the needs of retirees, publishing new findings in academic and practitioner journals. Research has included a behavioral finance study of the demand for annuities, efficient methods for addressing longevity risk and efficient methods for generating retirement income. We believe this research can form the basis of extensions to our current investment methodology, such as Income+, and can expand the opportunity to manage assets for participants both within existing sponsored plans as well as in IRA and other forms of retirement accounts.

Investment Technology

We believe portfolio management services in the workplace should be offered to all eligible plan participants regardless of wealth. As of December 31, 2015, the median assets under management for all Professional Management members was approximately $54,000. Because we service numerous accounts of varying sizes, achieving our objective requires significant scalability to achieve an affordable cost to the investment manager. Our scalable technology has continued to deliver flexibility and results as our business has grown.

Our Advice Engines consist of two main components: a Simulation Engine and an Optimization Engine. In the course of our development, we have received U.S. patents that relate to various parts of our financial advisory platform, including patents that apply specifically to the Advice Engines.

Simulation Engine. We have developed a Monte Carlo Simulation Engine that provides plan participants with a view of the potential range of future values of their retirement investments. The Simulation Engine helps plan participants reach informed decisions about the appropriate level of risk, savings and time horizon to improve the likelihood of achieving financial goals. Our Simulation Engine is capable of:

- modeling more than 40,000 securities, including retail mutual funds, stocks, employee stock options, institutional funds, guaranteed investment contracts and stable value funds, exchange-traded funds and fixed-income securities while considering tax implications, expenses, redemption fees, loads and distributions;
- considering security-specific characteristics such as investment style, expenses, turnover, manager performance, and security-specific and industry risk;
- forecasting the total household portfolio, including tax-deferred and taxable accounts;
- incorporating social security, pension income and other retirement benefits; and
- presenting outcomes in terms of portfolio value or retirement income.

Optimization Engine. We use our Optimization Engine to construct personalized portfolios. We do not rely on generic, model portfolios that are unable to accommodate many real-world complexities. We believe individuals prefer personalized investment recommendations that consider their personal preferences and financial circumstances over model portfolios.

Our Optimization Engine takes into consideration the costs, quality and investment styles of the specific investment alternatives available to a plan participant. Specifically, our investment recommendations take into consideration for each fund the mix of asset class exposures, fund expenses, turnover, fund-specific risk due to active management, manager performance and consistency, user-imposed constraints and tax efficiency, where applicable, to construct a personalized portfolio recommendation for each client. The calibration of this model is based on more than a decade of research into the factors that influence investment performance. Our approach does not rely on market timing or tactical asset allocation strategies. Our models are designed and calibrated on an ongoing basis to reflect the consensus market expectations built into the observed asset holdings of the market as a whole. We believe this approach increases the probability that our recommendations are consistent with current market conditions and are free from subjective or market timing biases that can arise from traditional optimization models. Our platform has been employed to provide portfolio management services, investment advice and retirement readiness assessments to millions of investors for more than 10 years.

When constructing a portfolio during the accumulation phase, our Optimization Engine:

- supports dynamic, specific, product-level buy and sell recommendations for Online Advice, which can be readily executed, and automated transactions for Professional Management;
- creates recommended portfolios from the available investment alternatives, such as retail mutual funds, institutional funds and employer stock, in the case of a 401(k) plan, or from either the entire universe of more than 24,000 retail mutual funds, or a subset thereof, in the case of taxable or other tax-deferred accounts;
- creates recommendations across multiple taxable and tax-deferred accounts;
- takes into consideration investment objective, investor risk preferences, restricted positions, redemption fees, investor constraints and outside account information provided to us to create personalized investment recommendations;
- for assets held in taxable accounts, considers the impact of personal tax rates, unrealized capital gains and losses, the tax efficiency of specific investment options including the propensity to distribute capital gains and income distributions and the benefit of optimal asset placement to maximize after-tax investment returns; and
- enables real-time interaction with plan participants allowing them to partially override certain types of recommendations and immediately receive updated advice reflecting these constraints.

When managing a portfolio during the income phase, our Optimization Engine:

- creates structured 401(k) portfolios of fixed income and equities that enable the generation of steady income payouts that can last for life, and can go up with the market; and
- takes into consideration fund expenses, bond durations, asset class style exposures, and changes in interest rates to create dynamic portfolios that support steady income payouts.

Our systems assess a plan participant's portfolio through a variety of market conditions including variation in inflation, interest rates, dividends and the performance of 15 different asset classes. We are able to simulate an individual investment portfolio's performance across a wide variety of scenarios in a fraction of a second, illustrating the possible outcomes for a given strategy. This technology underlies the interactive user experience available to users online or through call center sessions. The platform enables us to provide a financial forecast of a plan participant's current or target portfolio, showing the impact of a wide variety of potential market scenarios on investment performance.

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, financial research, quality assurance, related administration and other costs that do not qualify for capitalization. Costs in this area are primarily related to employee compensation for our investment research, product development and engineering personnel and related expenses and, to a lesser extent, related external consulting expenses.

Research and development expenses were $30.9 million, $29.8 million and $35.6 million in 2013, 2014 and 2015, respectively.

Customers and Key Relationships

We provide personalized portfolio management services, investment advice and retirement income services to plan participants and reach them through plan sponsors whose retirement plans are administered by plan providers.

Retirement Plan Participants. We define plan participants as employees participating in retirement plans who have access to our Professional Management or Online Advice services. Participants gain access to our services through their retirement plan providers or online directly with us.

Retirement Plan Sponsors. We define plan sponsors as employers across a range of industries who offer defined contribution plans to employees. No more than 3.4% of our revenue was associated with any one plan sponsor for the year ended December 31, 2015. As of December 31, 2015, the average annual sponsor retention over the last three years was 96%. The average annual AUM retention rate over the same period was 98%, which represents the average ratio of AUM from all sponsors as of January 1^{st} versus the same AUM for those sponsors who were retained as of December 31^{st} of each of the last three years. When providing advisory services directly, we enter into contracts with plan sponsors. These contracts are typically for an initial three or five year term and continue thereafter unless terminated. Under these contracts, at any time during the initial term or thereafter, the plan sponsor can cancel a contract for fiduciary reasons or breach of contract and can generally terminate a contract after the initial term upon 90 days' notice.

Retirement Plan Providers. We define plan providers as the administrators and record-keepers of defined contribution plans. In consultation with plan sponsors, plan providers make available a range of investment alternatives through retirement plans to individual participants. We work with plan providers to make available portfolio management and investment advisory services to the participants in the defined contribution plans of plan sponsors. We deliver our services to plan sponsors and plan participants primarily through existing connections with eight retirement plan providers. Our contracts with plan providers generally have terms ranging from three to five years, and have successive automatic renewal terms of one year unless terminated in accordance with prior notice requirements. A majority of these provider agreements are in renewal periods. In addition, a plan provider may terminate its contract with us at any time for specified breaches. We maintain two types of relationships with our plan providers:

- Direct Advisory Relationships. In these relationships, we are the primary advisor and a plan fiduciary. Data is shared between the plan providers and us via data connections. In addition, our sales teams directly engage plan sponsors, although, in some cases, we have formed and are executing a joint sales and collaborative marketing strategy with the plan provider. We have separate contracts with both the plan sponsor and plan provider, and pay fees to the plan provider for facilitating the exchange of plan and plan participant data as well as implementing our transaction instructions for member accounts. Plan providers with whom we have direct advisory relationships are Aon Hewitt, Charles Schwab, Fidelity, Mercer, T. Rowe Price, and Xerox. In 2015, we entered into an agreement with Wells Fargo to establish another plan provider relationship. We anticipate that the data connections necessary to provide services will be operative in 2016.

- Subadvisory Relationships. In these relationships, the plan provider is the primary advisor and plan fiduciary and we act in a subadvisory capacity. Our contract is with the plan provider and not the plan sponsor. We receive sales support from the plan provider and offer our co-branded services under the plan provider's brand, with the services identified as "powered by Financial Engines." Revenue is collected by the plan provider who then pays a subadvisory fee to us. We have subadvisory relationships with Aon Hewitt, Voya, Empower Retirement™, and Vanguard. The Aon Hewitt sub-advisory relationship excludes those sponsors currently under contract with us for a direct advisory relationship. We have historically earned, and expect to continue to earn on a combined basis, a significant portion of our revenue through subadvisory relationships with retirement plan providers.

Sales and Marketing

Our sales and marketing team seeks to increase assets we manage, primarily by adding members. This requires establishing relationships and data connections with plan providers and obtaining contracts with plan sponsors to make our services available to their plan participants. We conduct direct-response advertising, and other marketing and promotional activities to encourage plan participants and individual investors to enroll in our Professional Management service, including the Income+ feature, or to use our Online Advice service.

Establishing Relationships and Connections with Plan Providers. We rely on direct sales to create contractual relationships with plan providers. Following contract signing, technical teams from Financial Engines and the plan provider initiate a data connection project that typically takes between four months and one year to complete. Once we have incurred this one-time, up-front cost to establish a relationship and connection with a plan provider, we are able to roll out our services for any plan sponsor of that plan provider with more modest time and effort.

Obtaining Contracts with Plan Sponsors. Either Financial Engines or, in the case of a subadvisory relationship, the plan provider, must obtain a contract with a plan sponsor before we can make available our Professional Management or Online Advice services to that plan sponsor's participants. We market our services to plan sponsors in the following manner:

- Sell through the Retirement Plan Provider. Where we have a subadvisory relationship with the plan provider, we provide a combination of primary and secondary sales and marketing support depending on the plan sponsor opportunity. Together with the plan provider, we develop a joint sales and rollout plan in which our relationship managers and direct sales team support the plan provider. This distribution model enables us to reach plan sponsors efficiently, while providing consistent and independent investment advice to plan participants.
- Direct to Plan Sponsor. In the case of direct advisory relationships, we pursue a direct sales strategy with plan sponsors. Our direct sales team's efforts are supported by an institutional services team that engages in sales efforts with existing plan sponsors. The direct sales and institutional services teams are supported by a channel marketing team that seeks to generate demand for our services through public relations, industry events, plan provider specific marketing programs and sales support in the field. We intend to sell our services to plan sponsors that are not current clients but are serviced by the plan providers with whom we have relationships.

Direct Marketing to Plan Participants. Once a retirement plan has been set up on our systems and our services have been made available to plan participants, we conduct direct marketing, print fulfillment and other promotional activities to encourage use of our Online Advice service and enrollment in our Professional Management service. These efforts typically include printed or electronic Retirement Evaluations, email notifications, website integration and other forms of online engagement. Campaigns are usually conducted at the time of rollout and annually thereafter. Plan sponsors can choose an Active Enrollment campaign, in which a plan participant must affirmatively sign up for the Professional Management service, or a Passive Enrollment campaign, in which a plan participant will become a member of the Professional Management service unless the individual declines the service. Passive Enrollment campaigns achieve higher enrollment results at lower acquisition cost per member than do Active Enrollment campaigns. We believe Passive Enrollment is attractive to plan sponsors due to the lower fees payable by plan participants who are passively enrolled, the fiduciary protection afforded to plan sponsors by participants having to affirmatively elect to not receive professional advice and the relatively higher number of participants who will be enrolled and receiving Professional Management services upon rollout. Depending on the proportion of the plan’s participants who are passively enrolled, we eliminate or reduce our platform fees, as well as reduce the fees payable by plan participants.

Our goal is to increase enrollment by continuing to promote our services to participants through multiple forms of ongoing engagement. We plan to continue utilizing Active Enrollment campaigns, to implement enhancements to our direct marketing materials in our Active Enrollment campaigns and to integrate personalized online assessments of certain types of investing risks into plan providers' websites. This integration allows participants who log onto the provider website to view their Retirement Evaluations and to learn more about our services without waiting for an annual campaign or direct mailing from us. We believe a digital presence on the provider site and some sponsor websites will help increase our enrollment rate by improving the customer experience and engaging more participants throughout the year. As of December 31, 2015, our integrated enrollment capability, available through our largest provider partners, covered approximately 93% of our AUC.

Service Delivery and Systems

Our service delivery team is responsible for the rollout, operation and support of our Professional Management and Online Advice services. The key steps associated with delivering our Professional Management service include contracting with the plan sponsor, obtaining plan and plan participant data and setting up the plan on our system. We encourage use of our services by delivering Retirement Evaluations and enrollment materials, either through the plan provider or directly to plan participants, and with the support of the plan sponsor. Once a plan participant enrolls in our Professional Management service, the retirement assets of that plan participant count toward our AUM.

Our client implementations team is responsible for project management and the steps involved in setting up and rolling out our services to a plan sponsor. This includes learning the specifics of each plan sponsor's plan(s), including the fund lineup, fees, matching rules, associated defined benefit, non-qualified and other plans, configuring the plan specifics using our plan sponsor configuration tool, verifying the implementation and approving the commencement of enrollment efforts. The team also oversees the preparation and production of enrollment materials for each participant in the plan. Once a sponsor is set up and rolled out, our client implementations team is also responsible for maintenance of each sponsor's ongoing plan updates as directed by our account managers and/or subadvisory record-keepers.

The operations team is responsible for data processing and validation of prospect data for new sponsor rollouts and annual campaigns, as well as the ongoing servicing of members in the Professional Management service. These member servicing responsibilities include member data load and verification, the coordination and oversight of all printed materials and electronic communications, such as Retirement Evaluations, Retirement Plans and quarterly Retirement Updates, transaction processing and reconciliation, fee processing and reconciliation and quarterly sponsor report generation. For members with Income+, the operations team is also responsible for coordinating with the plan provider to facilitate the generation and distribution of retirement payouts in the form of checks or direct deposits. The operations team also provides these services for customers with IRA accounts managed by Financial Engines.

Our Advisor Call Center is staffed with registered Investment Advisor Representatives. These advisors service participants through phone and email channels by providing guidance to plan participants regarding the operation of the program, enrollment and personalization of the participant's financial profile. Our registered Investment Advisor Representatives and certain call center personnel of the plan providers with whom we work have access to the Financial Engines Professional Advisor, our proprietary client relationship management application, which enables the advisor to edit or add to the personal information used to manage the member's portfolio allocation.

Our services are deployed using a centrally hosted, web-based architecture built on industry-standard hardware and software. We have off-site back-up facilities for our database and network equipment, a disaster recovery plan and on-going third-party security audits to secure the integrity of our systems. We evaluate and improve our systems based on measures of availability, system response time and processing capacity.

Competition

We operate in a competitive industry, with many investment advice providers competing for business from individual investors, financial advisors and institutional customers. Direct competitors who offer independent portfolio management and investment advisory services to plan participants in the workplace include Morningstar, GuidedChoice and ProManage, LLC. Plan providers that offer directly competing portfolio management and investment advisory services to investors in the workplace include Fidelity and Bank of America Merrill Lynch. We currently have a relationship with Fidelity that allows us to provide our services to plan sponsors, for whom Fidelity is the plan provider, who elect to hire us. We also face indirect competition from products that could potentially be substitutes for our portfolio management services, investment advice and retirement income services, most notably target-date retirement funds. Target-date funds are offered by multiple financial institutions, such as Fidelity, Vanguard, T. Rowe Price, Principal Funds, Wells Fargo Advantage, J.P. Morgan, Voya and Empower Retirement™ Funds. These funds provide generic asset allocation based primarily on the investment horizon of the investor. Among the plan sponsors to whom we offer our Professional Management service and that offer target-date funds, approximately 95% offer target-date funds, of which approximately 81% offer retail-priced target-date funds. Target-date funds, managed accounts and balance funds have been granted Qualified Default Investment Alternative, or QDIA, status by the Department of Labor. In addition, competitors to our Income+ feature, include providers of retirement income products in the defined contribution market, such as Prudential, AllianceBernstein, and other providers of insurance products. Competitors in the IRA space include providers such as Fidelity, Charles Schwab, Bank of America Merrill Lynch, Morgan Stanley Smith Barney and Vanguard. At the plan participant level we see competition from individual, traditional retirement investment advisors. In addition, we face indirect competition from investment advisors that provide portfolio management services delivered primarily through online channels and with minimal human intervention.

We believe the competitive factors in our industry include:

- ability to provide independent, systemic portfolio management, investment advice and retirement income services based on widely recognized financial economic theory without conflicts of interest during both the accumulation and the income phases of retirement;
- established investment methodology and technology that allows for personalized scalable advice;
- proprietary methodologies;
- ability to provide a retirement income feature that is easy for plan sponsors to implement with no fiduciary lock-in, which can provide participants with the potential for steady lifetime payments and flexibility;
- quality, breadth and convenience of advisory services;
- established relationships with plan providers and plan sponsors;
- reputation and experience serving plan sponsors and plan participants; and
- price.

We believe we currently compete favorably with respect to these factors.

Regulation

We derive nearly all of our revenue from Financial Engines Advisors L.L.C.'s investment advisory and management services through our contracts with plan providers, plan sponsors and plan participants. Our investment advisory and management business is subject to extensive, complex and rapidly changing federal and state laws and regulations. Financial Engines Advisors L.L.C., a subsidiary of Financial Engines, Inc., is registered as an investment advisor with the SEC and is subject to examination by the SEC. The Investment Advisers Act of 1940, as amended, referred to as the Investment Advisers Act, and related regulations impose numerous obligations and restrictions on registered investment advisers including fiduciary duties, record keeping requirements, operational requirements, marketing requirements and disclosure obligations.

The SEC is authorized to institute proceedings for violations of the Investment Advisers Act, and to impose fines and sanctions, including disgorgement of fees or profits, reimbursement for losses, limiting, restricting or prohibiting a registered investment adviser from carrying on its business, or requiring a registered investment adviser to change its business practices or disclosure, in the event that a registered investment adviser fails to comply with applicable laws and regulations. Our failure to comply with the requirements of the Investment Advisers Act or the related SEC rules and interpretations, or other relevant legal provisions could have a material adverse effect on us. We believe we are in compliance in all material respects with SEC requirements under the Investment Advisers Act and other applicable laws and regulations. Some of our executives and other employees are registered Investment Adviser Representatives with various states through the Investment Adviser Registration Depository and are subject in some states to examination requirements.

Financial Engines Advisors L.L.C. is subject to the Employee Retirement Income Security Act of 1974, as amended, referred to as ERISA, and the regulations promulgated thereunder, with respect to investment advisory and management services provided to participants in retirement plans covered by ERISA and is also subject to state laws applicable to retirement plans not covered by ERISA. We are a fiduciary under ERISA. ERISA and applicable provisions of the Internal Revenue Code of 1986, as amended, referred to as the Code, impose certain duties on persons who are fiduciaries under ERISA and prohibit certain transactions involving ERISA plan clients. We rely on certain regulatory interpretations and guidance in connection with our current business model, including regulations and guidance relating to passive enrollment of participants into our Professional Management service. We provide subadvisory services pursuant to the Department of Labor's Advisory Opinion 2001-09A. The failure of Financial Engines Advisors L.L.C. to comply with these requirements could have a material adverse effect on us. The Department of Labor is authorized to institute proceedings for violations of ERISA. We believe that we are in compliance in all material respects with ERISA.

We are also subject to state and federal regulations related to privacy, data use and security. These rules require that we develop, implement and maintain written, comprehensive information security programs including safeguards that are appropriate to our size and complexity, the nature and scope of our activities and the sensitivity of any customer information at issue. In recent years, there has been a heightened legislative and regulatory focus on data security, including requiring consumer notification in the event of a data breach. Legislation has been introduced in Congress and there have been several Congressional hearings addressing these issues. From time to time, Congress has considered and may do so again, legislation establishing requirements for data security and response to data breaches that, if implemented, could affect us by increasing our costs of doing business. In addition, several states have enacted security breach legislation requiring varying levels of consumer notification in the event of a security breach. Several other states are considering similar legislation.

In recent years, there has been a heightened legislative and regulatory focus on the financial services industry, including proposals that redefine and expand what constitutes an ERISA fiduciary, call for creation of a self-regulatory framework for investment advisors similar to the regulatory structure that currently exists for broker-dealers through the Financial Industry Regulatory Authority, elimination of pre-dispute arbitration clauses, additional fee disclosures, and the imposition of additional qualification requirements on investment advisors providing services to ERISA plan clients. The Dodd-Frank Wall Street Reform and Consumer Protection Act, referred to as the Dodd-Frank Act, included various financial reform proposals that may affect investment advisers, including Financial Engines Advisors L.L.C. Although some implementing rules and regulations under the Dodd-Frank Act are still pending, it is expected that the compliance costs and liability risks for investment advisers will increase.

Franchise regulation. Beginning in 2016, as a result of our acquisition of The Mutual Fund Store (as defined herein), we must comply with regulations adopted by the Federal Trade Commission (the "FTC") and with several state laws that regulate the offer and sale of franchises. The FTC's Trade Regulation Rule on Franchising ("FTC Rule") and certain state and foreign laws require that we furnish prospective franchisees with a franchise disclosure document containing information prescribed by the FTC Rule and applicable state laws and regulations. We believe The Mutual Fund Store's domestic franchise disclosure document is in compliance in all material respects with FTC disclosure requirements and with registration requirements in jurisdictions that require registration for the sale of franchises.

We also must comply with a number of state laws that regulate some substantive aspects of the franchisor-franchisee relationship. These laws may limit a franchisor's ability to: terminate or not renew a franchise without good cause; interfere with the right of free association among franchisees; disapprove the transfer of a franchise; discriminate among franchisees with regard to charges, royalties and other fees; and place new stores near existing franchises.

Bills intended to regulate certain aspects of franchise relationships have been introduced into the United States Congress on several occasions during the last decade, but none have been enacted. Any existing or future laws or regulations that regulate substantive aspects of the relationships with franchisees may limit the ability of The Mutual Fund Store or of the combined company to terminate or otherwise resolve conflicts with franchisees and may otherwise negatively impact the business and operating results of The Mutual Fund Store or of the combined company.

Rigorous legal and compliance analysis of our business is important to our culture. Our General Counsel supervises our compliance group, which is responsible for addressing all regulatory and compliance matters that affect our investment advisory activities.

Intellectual Property

We rely on a combination of trademark, copyright, patent and trade secret protection laws to protect our proprietary technology and our intellectual property. We seek to control access to and distribution of our proprietary information. We enter into confidentiality agreements with our employees, consultants, vendors, plan sponsors and plan providers that generally provide that any confidential or proprietary information developed by us or on our behalf be kept confidential. We have proprietary know-how in software development, implementation and testing methodologies. We also pursue the registration of certain of our trademarks and service marks in the United States and other countries. We have registered the mark "Financial Engines" in the United States, Australia, Switzerland, China, the European Community, Hong Kong, Russia, Japan, Taiwan and Tunisia. We have registered sun and clouds design marks in Hong Kong. We have registered our corporate logo and the marks "Investor Central" and "Retirement Help for Life" in the United States. "Advice Light" and "Financial Engines Investment Advisor" are also trademarks owned by Financial Engines, Inc. In addition, we have registered our domain name, www. FinancialEngines .com. As of December 31, 2015, we have 16 issued U.S. patents in the following categories: user interface; outcomes-based investing, including our financial advisory system, our pricing module and load-aware optimization; tax-aware asset allocation; financial goal planning; advice palatability and retirement income planning and payout generation. These patents have expiration dates ranging from December 2, 2017 to August 1, 2031. We also have two issued patents in Australia.

We have established a system of security measures to protect our computer systems from security breaches and computer viruses. We have employed various technology and process-based methods, such as clustered and multi-level firewalls, intrusion detection mechanisms, vulnerability assessments, content filtering, antivirus software and access control mechanisms. We also use encryption techniques. We control and limit access to customer-specific project areas based on a "need to know" basis.

Employees

As of December 31, 2015, we employed approximately 527 full-time equivalent employees including employees in investment management, product development and engineering, sales and marketing, service delivery, and general and administrative management. We consider relations with our employees to be good and have never experienced a work stoppage. None of our employees are either represented by a labor union or subject to a collective bargaining agreement.

Recent Developments

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, 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 and certain affiliates, "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 approximately $250 million in cash and 9,885,889 shares of our common stock (the "Merger Consideration"), subject to certain closing and post-closing adjustments. A portion of the Merger 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, acquired 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.

Available Information

Our website is http://www.financialengines.com. We make available free of charge, on or through our website, our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, if any, or other filings filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after electronically filing or furnishing these reports with the SEC. Information contained on our website is not a part of this report. We have adopted a code of ethics applicable to our senior financial officers which is available free of charge, on or through our website's investor relations page.

The SEC maintains an Internet site at http://www.sec.gov that contains our the Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, if any, or other filings filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, proxy and information statements. All reports that we file with the SEC may be read and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC, 20549. Information about the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

Item 1A. Risk Factors

Risks Related to the Acquisition of The Mutual Fund Store

We are subject to business uncertainties due to the acquisition of The Mutual Fund Store, which may have an adverse effect on us.

Uncertainties regarding the potential impact of the acquisition of The Mutual Fund Store may have an adverse effect on us or our business. We cannot predict how our acquisition of The Mutual Fund Store may impact plan providers, plan sponsors, clients and employees and others with whom we do business, or how the market in general may react to the acquisition. These uncertainties may impair our ability to attract, retain and motivate key personnel, impact consumer and plan sponsor perceptions of our value proposition, and could negatively impact our existing or future business relationships.

We may fail to realize any of the anticipated benefits of our acquisition of The Mutual Fund Store or those benefits may take longer to realize than expected. We may also encounter unexpected difficulties in integrating the two businesses.

The success of our acquisition of The Mutual Fund Store will depend, in part, on our ability to successfully integrate and realize the anticipated benefits from combining our business with the business of The Mutual Fund Store. We may not fully realize, in a timely manner or otherwise, any of the anticipated synergies and other potential opportunities and benefits of the acquisition due to several factors, including: the difficulties with the integration process, unanticipated costs, liabilities or expenses associated with the acquisition, incurrence of acquisition-related costs, harm to our existing business relationships, including relationships with plan providers, plan sponsors, clients and employees as a result of the acquisition, harm to our reputation, the loss of key employees in the acquired business, unanticipated regulatory changes, use of resources that may be needed in other parts of our business, the use of a substantial portion of our available cash to consummate the acquisition, or other factors. In addition, our ability to impose appropriate internal controls, including accurate forecasting, accounting and reporting integration, to successfully manage the acquired business will require a significant investment of resources and management time. Any future acquisitions may involve similar risks, including the use of substantial amounts of cash, potentially dilutive issuances of equity securities, amortization expenses for other intangible assets and exposure to potential unknown liabilities of the acquired business. or other factors. Integration efforts may also divert management attention and resources and have an adverse effect on other important business priorities.

Risks Related to Our Business

Our revenue and operating results can fluctuate from period to period, which could cause our share price to fluctuate.

Our revenue and operating results have fluctuated in the past and may fluctuate from period-to-period in the future due to a variety of factors, many of which are beyond our control. Factors relating to our business that may contribute to these fluctuations include the following factors, as well as other factors described elsewhere in this document:

- a decline or slowdown of the growth in the value of financial market assets, which may reduce the value of assets we have under management and therefore our revenue and cash flows;
- failure of our strategy to acquire and retain new plan participants or our product and consumer marketing efforts;
- failure to realize anticipated benefits of the acquisition of The Mutual Fund Store, and unanticipated costs related thereto;
- variations in expected enrollment rates for our Professional Management service;
- unanticipated delays of anticipated advertising, marketing promotions or rollouts of our services;
- changes in the number of Professional Management members who withdraw all assets from their 401(k) plan, effectively terminating their relationship with us, or who decide to cancel their Professional Management program participation;
- changes to economic terms in contracts with plan providers or plan sponsors, including renegotiations or unanticipated changes to the relationship;
- changes in fees paid by us to plan providers for whom we are not acting as a subadvisor for data retrieval, transaction processing and fee deduction interfaces based on attaining contractually-agreed upon thresholds;
- downward pressure on fees we charge for our services;
- unanticipated delays in expected service availability;
- fluctuations in quarterly revenue due to changes in fees paid by Professional Management members based on attaining contractually-agreed upon participation thresholds;
- termination or non-renewal of an existing contract with a plan provider or a plan sponsor;
- failure to enter into contracts with new plan sponsors;
- mix in plan sponsors that choose our Active Enrollment or Passive Enrollment options;
- the impact of any business acquisitions and dispositions we may make;
- unanticipated changes in the timing or cost of our enrollment and member materials or mix of subadvisory, advisory and Passive Enrollment materials sent to our Professional Management members and postage costs;
- changes in laws, regulatory policies or interpretations that could impact our ability to offer services to plan providers as a subadvisor or deploy services in a specific manner;
- elimination or reduction of contributions into members' 401(k) plans or changes to the deductibility of contributions, which could reduce the growth rate of assets under management;
- unanticipated delays in recognizing revenue based on timing of meeting specified milestones under contracts with customization and consulting services;
- changes in our pricing policies or the pricing policies of our competitors to which we have to adapt; and
- negative public perception and reputation of our Company or the financial services industry.

In addition, we recently completed the acquisition of The Mutual Fund Store and accordingly, our revenue and operating results may be impacted by risks associated with the acquisition, including our ability to successfully integrate and realize the anticipated benefits of the acquisition in a timely manner or at all, diversion of management's attention and resources, unanticipated costs, expenses or liabilities associated with the acquisition, and other factors as described elsewhere in this "Risk Factors" section.

As a result of these and other factors, the results of any prior quarterly or annual periods should not be relied upon as indications of our future revenue or operating performance.

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A substantial portion of our revenue is based on fees earned on the value of assets we manage. Our revenue and earnings could suffer if the financial markets experience a downturn or a slowdown in growth that reduces the value, or slows the growth, of our Assets Under Management.

We derive a significant and growing portion of our revenue from member fees based on the assets in the retirement accounts we manage, which we refer to as AUM. We allocate these assets among the investments available to each particular investor. For the workplace, the investment alternatives for a particular plan are selected by the plan's fiduciary, not by us, and may include retail mutual funds, institutional funds, exchange-traded funds, fixed-income investments and potentially higher volatility employer stock. For clients of The Mutual Fund Store, investment alternatives are selected by the investment advisor and may include any number of funds, ETFs, insurance products and equity, including stocks. In addition, our business is highly concentrated in 401(k) plans. The value of all of these investments can be affected by the performance of the financial markets globally, currency fluctuations, interest rate fluctuations and other factors. Our professional management revenue and fees are generally calculated using the value of AUM at the end of each month or calendar quarter. Similarly, The Mutual Fund Store calculates its fees as a percentage of the assets in client accounts quarterly on a rolling basis throughout the year. Our methodology may result in lower fees if the financial markets are down when fees are calculated, even if the market had performed well earlier in the month or the quarter. In addition, an economic downturn, changes in tax laws, or slowdown in growth could cause plan participants or their employers to contribute less to their 401(k) plans and cause fewer eligible employees to participate in 401(k) plans, or cause clients to withdraw funds from or close their retail accounts, which could adversely affect the amount of AUM. If plan participants or The Mutual Fund Store clients are not satisfied with the performance of their portfolios due to a decline in the financial markets or otherwise, our cancellation or account withdrawal rates could increase, which in turn would cause our AUM to decline. Any potential decline in AUM would not necessarily be proportional to, and, in total, could be greater than, the overall market decline. If any of these factors reduces the value of assets we have under management, the amount of fees we would earn for managing those assets would decline, and our revenue, operating results and financial condition could be harmed.

Our revenue could be harmed if we experience unanticipated delays in expected service availability.

We generally do not earn platform fees from a plan sponsor until our services are available to plan participants, and we do not earn fees for our Professional Management service until we begin to manage a participant's account. If service availability is delayed due to actions or inactions on our part or on the part of a plan sponsor, plan provider or other third party, or due to matters beyond our control, our revenue would be harmed. This in turn would negatively affect our anticipated operating results and financial condition for a particular period.

Our revenue could be harmed if we fail to enroll new Professional Management plan participants or if we experience increased cancellations or unanticipated variations in new enrollment campaigns.

Our enrollment rate, and therefore our revenue, depend on plan participants signing up for or, in the case of a Passive Enrollment campaign, not declining, the Professional Management service. Increasing plan participant enrollment in our Professional Management service increases the AUM on which we earn fees. If we are unable to continue to increase our enrollment, our business may not grow as we anticipate. Unanticipated variations in the number, size, methodology or timing of enrollment campaigns, or our ability to employ ongoing enrollment techniques such as integration with provider websites or outbound calling, or methods used to enroll clients of The Mutual Fund Store, could also affect our revenue for a particular period. If we are not able to generate expected enrollment under a particular contract, this would negatively affect our revenue growth. For example, we have found that if plan sponsors do not use our standard enrollment campaign, enrollment rates tend to be lower. If fewer plan sponsors elect Passive Enrollment for their plan participants, which typically generates higher enrollment rates, our revenue may not grow at anticipated rates. Even when we have rolled out our Professional Management service at a particular plan sponsor, some plan participants 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 plan participant. Certain securities within a plan participant'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. As we endeavor to find new ways to grow enrollment, and to enroll clients from The Mutual Fund Store, we may introduce processes, brand strategy, or customer experiences that some plan providers, plan sponsors or plan participants reject or resist, which may result in an unsuccessful enrollment campaign, unsuccessful ongoing enrollment or higher cancellation rates, or may harm our reputation with those plan providers, plan sponsors or plan participants, thereby jeopardizing future enrollment with those parties. Further, individual plan participants whose accounts we manage may choose at any time to stop having us manage those accounts. Historically, member cancellations rates have typically increased during periods where there has been a significant decline in stock market performance and, in addition, member cancellation rates are typically the highest in the three months immediately following the completion of a given promotional campaign. The level of any potential cancellations or enrollment decline may not necessarily be proportional to, and may, in total, be greater than, the overall market decline. If we are unsuccessful in our Professional Management enrollment campaigns, if we lose plan participants, or if we otherwise fail to increase enrollment rates, our revenue, operating results and financial condition could be harmed.

Our growth strategy includes extending and expanding our services including entering new markets and we may not be able to develop a successful growth strategy, successfully implement new services, or accurately estimate the impact on our business of developing and introducing these services.

Our strategy includes enhancing and expanding the functionality of our services with new features, offering new services with our existing market, expanding our business through the services offered by The Mutual Fund Store and continuing to evaluate new opportunities in markets adjacent to our existing retirement income market. For example, Income+, manages plan participants' defined contribution assets while allowing payouts from their retirement accounts. We have limited experience determining and executing income payments from retirement accounts. If our assessments or forecasts with respect to the expected duration and sufficiency of assets to support retirement income payments to participants are inaccurate, or if we fail to ensure that payouts are made at the times expected, our business and reputation could suffer.

In the longer-term, we intend to further expand our services beyond workplace defined contribution plans. For example, in 2012 we began offering to manage assets in IRA accounts, and in 2013 expanded our IRA management to include Income+ capability. In 2016, we acquired the business of The Mutual Fund Store, which offers advice on taxable accounts. We have limited experience beyond workplace defined contribution plans or with taxable assets, and do not have direct experience with managing and growing retail distribution. We may not be able to anticipate or manage new risks and obligations or legal, compliance, operational or other requirements that may arise when offering investment management or retirement income payout services for accounts other than 401(k) accounts or when offering other services related to preparing for retirement, such as assistance with optimizing social security payments. We may not be able to acquire clients in these new markets, or attract new clients to The Mutual Fund Store,on a cost-effective basis, or at all.

In furtherance of our strategy, we intend to invest significant resources in the research, development, sales and marketing of new services and features. A viable market for our new services or features may not exist or develop as we anticipated, and our offerings may not be well received by potential plan sponsor customers or individual plan participants, retail clients or other investors. We may not be able to develop effective marketing and advertising for new services and features. We may make incorrect decisions as we implement our strategy, such as decisions whether to design and build elements of our services in-house or procure them through third parties or through acquisition. We have no experience with strategic partnerships and limited experience with acquisitions, and pursuing any such transaction would divert management attention, cause us to incur expenses and use internal resources, and may not be successful for a variety of reasons. As we expand our services in response to new or different customer demands, competition, in furtherance of our strategy, or for other reasons, we may not be able to accurately assess, design or implement testing protocols sufficient to identify all problems or limitations of the new features or services, we may make errors in the deployment of new features or services, or we may employ manual processes that are more prone to failure.

We may not be able to accurately estimate the impact of these future services, including those offered by The Mutual Fund Store, on our business or how the benefits of these services will be perceived by our clients. In addition, the anticipated benefits of these services on our business may not outweigh the resources and costs associated with their development or acquisition, or the liabilities associated with their operation. If we do not realize the anticipated benefits of these services, our revenue, operating results and financial condition could be harmed.

Our revenue is highly dependent upon a small number of plan providers with whom we have relationships, and the renegotiation or termination of our relationship with any of these plan providers could significantly impact our business.

Our relationships and data connections with plan providers allow us to effectively manage plan participant accounts and integrate our services into plan providers' current service platforms. These relationships also provide us with an advantage in trying to sign potential plan sponsors. If a plan provider were to terminate our contract, reduce its volume of business, or substantially renegotiate the terms of its contract with us, our revenue could be harmed.

We refer to four of our nine primary retirement plan provider relationships as subadvisory relationships, including one plan provider with whom we have a subadvisory relationship for some plan sponsors and a direct advisory relationship for other plan sponsors. For the provider relationships that we refer to as subadvisory, we typically act as subadvisor to the plan provider acting as investment advisor, but we may directly act as investment advisor if Online Advice is the only service offered by a particular plan sponsor or for certain legacy plans. Where we act as subadvisor, we do not have a direct relationship with the plan sponsors and therefore may be less able to influence decisions by those plan sponsors to use or continue to use our services or to add additional services. Where we act as subadvisor, we do not know and cannot control the exact terms of the contract between the plan provider and the plan sponsor, which vary on terms such as the length of the contract, renewal and cancellation provisions. We have historically earned, and expect to continue to earn on a combined basis, a significant portion of our revenue through subadvisory relationships with retirement plan providers. The renegotiation or termination of our relationship with any of these plan providers could negatively impact our business. For the year ended December 31, 2015, 9%, 10%, 7% and 6% of our total revenue was attributable to the subadvisory fees paid to us by Empower Retirement™, Aon Hewitt, Vanguard and Voya, respectively, the four plan providers with whom we had subadvisory relationships as of December 31, 2015.

Our contracts with our nine primary retirement plan providers generally have terms ranging from three to five years, and have successive automatic renewal terms of one year unless terminated in accordance with prior notice requirements. A majority of these provider agreements are in renewal periods. A plan provider may also terminate its contract with us at any time for specified breaches. Further, either party may decide to renegotiate the terms of the contract and may give a termination notice pending renegotiations to avoid having a contract automatically renew under its existing terms. In addition, there are unpredictable factors, other than our performance, that could cause the loss of a plan provider. If we lose one of our plan providers with whom we have a relationship or if one of those plan providers significantly reduces its volume of business with us or renegotiates the economic terms of its contract with us, our revenue, operating results and financial condition could be harmed.

Some plan providers with whom we have relationships also provide or may provide competing services or products.

Some plan providers with whom we have relationships, such as Fidelity, offer or may offer directly competing investment guidance, retirement advice, portfolio management and retirement income services to plan participants. We also face indirect competition from products that could potentially substitute for our services, most notably target-date funds, which are offered by a number of plan providers with whom we have relationships, including Fidelity, Vanguard, T. Rowe Price, Voya, Wells Fargo Advantage and Empower Retirement™ Funds. Among the plan sponsors to whom we offer our Professional Management service and that offer target-date funds, approximately 95% offer target-date funds, of which approximately 81% offer retail-priced target-date funds. Plan providers who offer competing services or products may be better positioned to promote or offer their services or products over ours in the sales process. Where we have a subadvisory relationship with the plan provider, the plan provider may compete with us for plan sponsors. Our acquisition of The Mutual Fund Store business has increased this competitive dynamic. Competitors to our Income+ feature include providers of retirement income products in the defined contribution market, such as AllianceBernstein, Prudential, and other providers of insurance products. Competitors that provide advisory services in the IRA space include providers such as Fidelity, Charles Schwab, Bank of America Merrill Lynch, Morgan Stanley Smith Barney and Vanguard. Competitors of our subsidiary The Mutual Fund Store include RIAs such as Edelman Financial Services, and hybrid RIAs such as Edward Jones, that are focused on serving mass-affluent investors.

This competition with companies with whom we have relationships can strain the relationship with plan providers and may result in less favorable contract terms or contract cancellation, in which event our revenue, operating results and financial condition could be harmed.

Our revenue is highly dependent upon the plan sponsors with whom we have relationships, and the renegotiation or termination of our relationship with one or more large plan sponsors could significantly impact our business.

A substantial portion of our revenue is generated as a result of contracts with plan sponsors. Under these contracts, where we are providing advisory services directly and not in a subadvisory capacity, we typically earn annual platform fees that are paid by the plan sponsor, plan provider or the retirement plan itself as well as fees based on AUM that are generally paid by plan participants. These contracts with plan sponsors typically have initial terms of three or five years and continue thereafter unless terminated. At any time during the initial term or thereafter, a plan sponsor can cancel a contract for fiduciary reasons or breach of contract. A plan sponsor can generally terminate a contract after the initial term upon 90 days' notice. If a plan sponsor were to cancel or not renew a contract, we would no longer earn platform fees under that contract. In addition, we would no longer manage any assets in that plan and consequently would no longer earn fees based on AUM in that plan. A plan sponsor may also determine to contract through a subadvisory relationship with a plan provider or change to a different record-keeper, which may result in lower revenues for our company due to the contract terms. If one or more plan sponsors were to cancel their contracts with us, fail to renew those contracts, or move to a subadvisory relationship, our revenue, operating results and financial condition could be harmed.

Our Professional Management service makes up a significant and growing part of our revenue base. Our business could suffer if fees we can charge for these services decline.

We earn fees for our Professional Management service based on the value of assets in the accounts we manage, which we refer to as AUM. We believe that these services will continue to make up a substantial and growing portion of our revenue for the foreseeable future. There are many investment advisory and management services and other financial products available in the marketplace, which puts downward pressure on fees for our Professional Management service. Congressional, regulatory or industry attention focused on fees for financial services, such as legislative constraints on fees or rules requiring additional disclosure regarding fees, could result in downward pressure on fees or impose limits on the fees we can charge for our Professional Management service. Our contract terms may include thresholds, which upon attainment, may reduce the fees we charge for our Professional Management service. If we lower the fees we charge for our Professional Management service in response to regulatory, contractual or competitive pressure, our revenue, operating results and financial condition could be harmed.

Our failure to maintain or increase the number of plan sponsors with whom we have relationships could harm our business.

Our future success largely depends on maintaining or increasing the number of plan sponsors with whom we have relationships. If the market for our services declines or develops more slowly than we expect, plan sponsors move to record-keepers that currently do not offer our services, or the number of plan sponsors that choose to provide our services to their plan participants declines, our revenue, operating results and financial condition could be harmed. If the AUM represented by the plan sponsors with whom we have relationships declines, the failure to increase the number of plan sponsors that choose to provide our services to their plan participants could harm our revenue, operating results and financial condition.

We rely on plan providers and plan sponsors to provide us with accurate and timely plan and plan participant data in order for us to provide our services, and we rely on plan providers to execute transactions in the accounts we manage.

Our ability to provide high-quality services depends, in part, on plan sponsors and plan providers supplying us with accurate and timely data in a usable format. Data transmissions from our plan sponsors and providers routinely contain errors or are not supplied in a timely manner. Although we have processes in place to attempt to detect and correct such errors and to encourage timely transmissions, our efforts may not be sufficient. Errors or delays in the data we receive from plan providers or plan sponsors, missing data, data transmitted in a format that we cannot readily use, or miscommunication about what data should be transmitted or in what format, could lead us to make advisory, transaction, disbursement or communication errors that could harm our reputation or lead to financial liability, or may prevent us from providing our services to, or earning revenue from, otherwise eligible plan participants. In addition, when we make changes in an account we manage, or direct a disbursement, we instruct the plan provider or IRA custodian to execute the transactions. If a plan provider or IRA custodian fails to execute transactions in an accurate and timely manner, it could harm our reputation or lead to financial liability. In turn, our operating results and financial condition could be harmed.

We may be liable to our plan sponsors, plan participants, plan providers or individual clients for damages caused by system failures, errors or unsatisfactory performance of services.

If we fail to prevent, detect or resolve errors in our services, including services offered through our subsidiaries, regardless of the cause of the errors, our business and reputation could suffer. Errors in inputs or processing, such as plan set-ups, transaction instructions or plan participant data could be magnified across many accounts. Concentrated positions held by many plan participants, particularly in employer stock, could result in a large liability if a systematic input or processing error was to cause us to make errors in transactions relating to those positions. The manual and individual nature of The Mutual Fund Store business increases the risk of human error or malfeasance and could cause mistakes in client transactions. Unlike the Financial Engines business, The Mutual Fund Store advisors are able to move client assets and to make changes to client investment accounts directly. The Mutual Fund Store manages taxable accounts, where errors could affect client tax obligations and create liability for us. We could also face liability if we fail to process a participant's or a client's instructions. We may not be able to identify or resolve these errors in a timely manner. In addition, failure to perform our services for Professional Management members, including plan disbursements, on a timely basis could result in liability. We may also have liability to the plan provider where we have a subadvisory relationship with the plan provider. In the past, we have reimbursed plan sponsors, participants and providers, and The Mutual Fund Store has reimbursed clients, for errors in our services and expect to do so in the future. After an error is identified, resolving the error and implementing remedial measures has at times diverted the attention and resources of our management, key technical personnel and internal resources from other business concerns. Any errors in the performance of services for a plan sponsor or plan provider, or poor execution of these services, could result in a plan sponsor or plan provider limiting our ability to market existing or enhanced services, or terminating its agreement. Similarly, transaction or service problems could cause The Mutual Fund Store clients to terminate their accounts. Although we attempt to limit our contractual liability for consequential damages in rendering our services, these limitations on liability may be unenforceable in some cases, or may be insufficient to protect us from liability for damages. ERISA and other applicable laws require that we meet a fiduciary obligation to plan participants. We maintain general liability insurance coverage, including coverage for errors or omissions; however, this coverage may not continue to be available on reasonable terms or may be unavailable in sufficient amounts to cover one or more large claims. An insurer might disclaim coverage as to any future claim. A successful assertion of one or more large claims, or several smaller claims, against us that exceed our available insurance coverage or changes in our insurance policies, including premium increases or the imposition of a large deductible or co-insurance requirement, in which event our operating results and financial condition could be harmed.

If our reputation is harmed, we could suffer losses in our business and revenue.

Our reputation, which depends on earning and maintaining the trust and confidence of plan providers, plan sponsors, plan participants and individual investors that are current and potential customers, is critical to our business. Our reputation is vulnerable to many threats that can be difficult or impossible to control, and costly or impossible to remediate. Regulatory inquiries or investigations, lawsuits initiated by plan fiduciaries, plan participants, clients, current or former employees, or stockholders, employee misconduct, perceptions of conflicts of interest, rumors, communication errors, and transactional mistakes, among other developments, could substantially damage our reputation, even if they are baseless or satisfactorily addressed. In addition, any perception that the quality of our investment advice may not be the same or better than that of other providers could also damage our reputation. Any damage to our reputation could harm our ability to attract and retain plan providers, plan sponsor customers, individual investors and key personnel. This damage could also cause plan participants to stop using or enrolling in our Professional Management service, or services offered by The Mutual Fund Store, which would adversely affect the amount of AUM on which we earn fees, in which event our revenue, operating results and financial condition could be harmed.

Any failure to protect the confidentiality of plan provider, plan sponsor, plan participant or individual investor data could lead to legal liability, adversely affect our reputation and have a material adverse effect on our business, financial condition or results of operations.

Our services involve the exchange of information, including detailed information regarding individual investors or information regarding plan participants provided by plan providers, plan sponsors, and retirement account custodians through a variety of electronic and non-electronic means. In addition, plan participants and clients of The Mutual Fund Store routinely provide confidential information and input personal investment and financial information, including portfolio holdings and, in some instances, credit card data, into our systems. Clients of our subsidiary, The Mutual Fund Store, provide confidential information to their advisors verbally and in written format, which is then input manually. We rely on a complex network of process and software controls to protect the confidentiality of data provided to us or stored on our systems. If we do not maintain adequate internal controls or fail to implement new or improved controls, this data could be misappropriated or confidentiality could otherwise be breached. As we expand our business and increasingly integrate our services with and rely upon third parties we may be subject to increased risk and liability for security breaches. We must devote increasing management time and resources to monitoring third-party security controls. We could be subject to liability if we inappropriately disclose any plan participant's and client's personal information, or if third parties are able to penetrate our network security or otherwise gain access to any plan participant's and client's name, address, portfolio holdings, credit card number or other personal information. Any such event could subject us to claims for unauthorized credit card purchases, identity theft or other similar fraud claims or claims for other misuses of personal information, such as unauthorized marketing or unauthorized access to personal information.

Many of our agreements with plan sponsors, plan providers and clients do not limit our potential liability for breaches of confidentiality, and consequential damages. If any person, including any of our employees, contractors, or consultants, penetrates our network security, misappropriates or mishandles sensitive data, inadvertently or otherwise, we could be subject to significant liability from our plan sponsors, plan providers, participants and clients for breaching contractual confidentiality provisions or privacy laws. In addition, our agreements with plan sponsors and plan providers require us to meet specified minimum system security and privacy standards. Given the growing concern over privacy and identity theft, we have been and expect to continue to be subject to increased scrutiny by both plan providers and plan sponsors, which have increased the frequency and thoroughness of their audits. If we fail to meet these standards, our plan sponsors and plan providers may seek to limit or terminate their agreements with us. Regulations in some states and proposed federal regulations may require notification via the press or to customers in the event of security breaches, which could harm our reputation and increase our costs of doing business. Unauthorized disclosure of sensitive or confidential data, whether through breach of our computer systems, systems failure or otherwise, could damage our reputation, expose us to litigation, cause us to lose business, harm our revenue, operating results or financial condition and subject us to regulatory action, which could include sanctions and fines.

Privacy concerns could require us to modify our operations.

As part of our business, we use plan participants' and clients' personal data. For privacy or security reasons, privacy groups, governmental agencies and individuals may seek to restrict or prevent our use of this data. We have incurred, and will continue to incur, expenses to comply with privacy and security standards and protocols imposed by law, regulation, industry standards or contractual obligations. Increased domestic or international regulation of data utilization and distribution practices, including self-regulation, could require us to modify our operations and incur significant additional expense, in which event our revenue, operating results and financial condition could be harmed.

Acquisition activity involving plan providers or plan sponsors could adversely affect our business.

Acquisitions or similar transactions involving our plan providers or plan sponsors could negatively affect our business in a number of ways. After such a transaction, the plan provider or plan sponsor might terminate, not renew or seek to renegotiate the economic terms of its contract with us. Companies involved in these transactions may experience integration difficulties that could increase the risk of providing us inaccurate or untimely data or delay in service availability. Any of our existing plan sponsors may be acquired by an organization or a plan sponsor with no relationship with us, effectively terminating our relationship, or be acquired by a plan sponsor with an online services-only relationship rather than a Professional Management relationship which might cause us to lose business and harm our revenue, operating results or financial condition. Plan providers could be acquired by a company offering competing services to ours, which could increase the risk that they terminate their relationship with us, or be acquired by an organization with no relationship with us which might cause us to lose that plan provider, have to renegotiate the economic terms of their contract with us and harm our revenue, operating results or financial condition. We cannot predict the impact, if any, that these corporate actions may have on our revenue, operating results or financial condition.

Our ability to compete, succeed and generate profits depends, in part, on our ability to obtain accurate and timely data from third-party vendors on commercially reasonable terms.

We currently obtain market and other financial data we use to generate our investment advice from a number of third-party vendors. Termination of one or more of these vendor agreements, exclusion from, or restricted use of a data provider's information could decrease the information available for us to use and offer our clients. We do not currently have secondary sources or other suppliers for some of these data items and the lack of these resources may have a material adverse effect on our business, financial condition or results of operations. If these data feed agreements were terminated, backup services would take time to set up and our business and results of operations could be harmed. We rely on these data suppliers to provide timely and accurate information, and their failure to do so could harm our business.

In addition, some data suppliers may seek to increase licensing fees for providing content to us. If we are unable to renegotiate acceptable licensing arrangements with these data suppliers or find alternative sources of equivalent content, we may experience a reduction in our operating margins or market share, in which event our revenue, operating results and financial condition could be harmed.

Our portfolio management and investment advisory operations may subject us to liability for losses that result from a breach of our fiduciary duties or other obligations.

Our portfolio management and investment advisory operations involve fiduciary obligations that require us to act in the best interests of the plan participants to whom we provide advice or for whom we manage accounts. We may face liabilities for actual or claimed breaches of our fiduciary duties. We may not be able to prevent plan participants, plan sponsors or the plan providers to or through whom we provide investment advisory services from taking legal action against us for an actual or claimed breach of a fiduciary duty. Because we currently provide investment advisory services on substantial assets, we could face substantial liability to plan participants or plan sponsors if we breach our fiduciary duties. In addition, we may face liabilities for actual or claimed deficiencies in the quality or outcome of our investment advisory recommendations, investment management and other services, even in the absence of an actual or claimed breach of fiduciary duty. While we believe that we would have substantial and meritorious defenses against such a claim, we cannot predict the outcome or consequences of any such potential litigation.

Competition could reduce our share of the portfolio management, investment advisory and retirement planning market and hurt our financial performance.

We operate in a highly competitive industry, with many investment advice providers competing for business from individual investors, financial advisors and institutional customers. Direct competitors that offer independent portfolio management and investment advisory services to plan participants in the workplace include Morningstar, Inc., GuidedChoice and ProManage, LLC. Plan providers that offer directly competing portfolio management and investment advisory services to investors in the workplace include Fidelity and Bank of America Merrill Lynch. We currently have a relationship with Fidelity that allows us to provide our services to plan sponsors that elect to hire us for which Fidelity is the plan provider. We also face indirect competition from products that could potentially substitute for our portfolio management services, investment advice and retirement income, most notably target-date funds. Target-date funds are offered by multiple financial institutions, including Fidelity, Vanguard, T. Rowe Price, Principal Funds, Wells Fargo Advantage, J.P. Morgan, Voya and Empower Retirement™ Funds. These funds provide generic asset allocation based on the investment horizon of the investor. Target-date funds, managed accounts and balanced funds have been granted Qualified Default Investment Alternative, or QDIA, status by the Department of Labor. In addition, with the introduction of the Income+ feature, indirect competitors who offer income solutions in retirement include providers of insurance products. As the market for providing portfolio management and investment advisory services continues to grow, we also may face competition from smaller or newly established competitors, including investment advisors that provide portfolio management services delivered primarily through online channels and with minimal human intervention. Plan providers offer or may choose to offer directly and indirectly competitive products in the future. The plan providers with which we do not have contractually exclusive relationships may enter into similar relationships with our competitors. This in turn may harm our business.

Many of our competitors have larger customer bases and significantly greater resources than we do or may have fewer regulatory or other constraints. This may allow our competitors to respond more quickly to new technologies and changes in demand for services, to devote greater resources developing and promoting their services and to make more attractive offers to potential plan providers, plan sponsors and plan participants. Industry consolidation may also lead to more intense competition. Increased competition could result in price reductions or loss of market share, in which event our revenue, operating results and financial condition could be harmed.

Our future success depends on our ability to recruit and retain qualified employees, including our executive officers.

Our ability to provide portfolio management services, investment advice and retirement income and maintain and develop relationships with plan participants, plan providers and plan sponsors depends largely on our ability to attract, train, motivate and retain highly skilled professionals, particularly professionals with backgrounds in sales, marketing, technology and financial and investment services. We believe that success in our business will continue to be based upon the strength of our intellectual capital. For example, due to the complexity of our services and the intellectual capital invested in our investment methodology and technology, the loss of personnel integral to our investment research, product development and engineering efforts would harm our ability to maintain and grow our business. Consequently, we must hire and retain employees with the technical expertise and industry knowledge necessary to continue to develop our services and effectively manage our growing sales and marketing organization to assist the growth of our operations. We believe there is significant competition for professionals with the skills necessary to perform the services we offer, particularly in the geographic area of our headquarters in Sunnyvale, California. We experience competition for analysts and other employees from financial institutions and financial services organizations such as hedge funds and investment management companies that generally have greater resources than we do and therefore may be able to offer higher compensation packages. Competition for these employees is intense, and we may not have sufficient human resources programs, practices and benefits to be able to retain our existing employees, or be able to recruit and retain other highly qualified personnel. If we cannot retain key employees from The Mutual Fund Store, we may lose important knowledge and skills resident in that organization. In addition, many of the advisors employed at The Mutual Fund Store have developed personal relationships with their clients. If we are not able to retain these advisors, their clients may close their accounts or clients may leave The Mutual Fund Store to follow their advisor. If we cannot hire and retain qualified personnel, our ability to continue to expand our business would be impaired and our revenue, operating results and financial condition could be harmed.

If our intellectual property and technology are not adequately protected to prevent use or appropriation by our competitors, our business and competitive position could suffer.

Our future success and competitive position depend in part on our ability to protect our proprietary technology and intellectual property. We rely and expect to continue to rely on a combination of trademark, copyright, patent and trade secret protection laws to protect our proprietary technology and intellectual property. We also require our employees, consultants, vendors, plan sponsors and plan providers to enter into confidentiality agreements with us. As of December 31, 2015, we have 16 issued U.S. patents which relate to novel aspects of our financial advisory platform, including user interface features, our pricing module, load-aware optimization, tax-aware asset allocation, financial goal planning, advice palatability, and other key technologies of our outcomes-based investing methodologies. We also have several additional pending U.S. patent applications. In addition, we have issued patents and pending patent applications in foreign jurisdictions. One or more of our issued patents or pending patent applications may be called into question on the basis of being directed to abstract ideas or methods of doing or conducting business. The general validity of software patents and so called “business method” patents have been challenged in a number of jurisdictions, including the United States. Changes in patent laws or case law may impact the scope of patent-eligible subject matter by, for example, limiting what constitutes a patentable “process.” Our patents may become less valuable if software or business methods are found to be a non-patentable subject matter or if additional requirements are imposed that our patents do not meet.

The steps we have taken may be inadequate to prevent the misappropriation of our proprietary technology. Our patent and trademark applications may not lead to issued patents and registered trademarks. There can be no assurance that others will not develop or patent similar or superior technologies, products or services, or that our patents, trademarks and other intellectual property will not be challenged, invalidated or circumvented by others. The legal standards relating to the validity, enforceability and scope of protection of intellectual property rights are uncertain and still evolving. Unauthorized copying or other misappropriation of our proprietary technologies could enable third parties to benefit from our technologies without paying us for doing so, which could harm our business. Policing unauthorized use of proprietary technology is difficult and expensive and our monitoring and policing activities may not be sufficient to identify any misappropriation and protect our proprietary technology. In addition, third parties may knowingly or unknowingly infringe our patents, trademarks and other intellectual property rights, and litigation may be necessary to protect and enforce our intellectual property rights. If litigation is necessary to protect and enforce our intellectual property rights, any such litigation could be very costly and could divert management attention and resources.

We also expect that the more successful we are, the more likely it becomes that competitors will try to develop products that are similar to ours, which may infringe on our proprietary rights. If we are unable to protect our proprietary rights or if third parties independently develop or gain access to our or similar technologies, our business, revenue, operating results, financial condition, reputation and competitive position could be harmed.

Third parties may assert intellectual property infringement claims against us, or our services may infringe the intellectual property rights of third parties, which may subject us to legal liability and harm our reputation.

Assertion of intellectual property infringement claims against us, plan providers or plan sponsors could result in litigation. We might not prevail in any such litigation or be able to obtain a license for the use of any infringed intellectual property from a third party on commercially reasonable terms, or at all. Even if obtained, we may be unable to protect such licenses from infringement or misuse, or prevent infringement claims against us in connection with our licensing efforts. We expect that the risk of infringement claims against us will increase if more of our competitors are able to obtain patents for software products and business processes, and if we hire employees who possess third-party proprietary information. Any such claims, regardless of their merit or ultimate outcome, could result in substantial cost to us, divert management's attention and our resources away from our operations and otherwise harm our reputation. Our process for controlling employees' use of third-party proprietary information may not be sufficient to prevent assertions of intellectual property infringement claims against us. If we are not successful in overcoming such claims and are required to pay damages, licensing fees or fines, or alter our services or business practices, our revenue, operating results and financial condition could be harmed.

Any inability to manage our growth could disrupt our business and harm our operating results.

We expect our growth, including through the acquisition of The Mutual Fund Store and future acquisitions of its franchises, to place significant demands on our management and other resources. Our success will depend in part upon the ability of our senior management to execute on our growth strategy and to manage growth effectively. We rely on proprietary and customized software, systems and reporting processes, which require experienced personnel to operate, maintain and expand, and which is made more complex by the acquisition. Expansion creates new and increased management and training responsibilities for our employees. In addition, continued growth increases the challenges involved in:

- recruiting, training and retaining sufficient skilled technical, marketing, sales and management personnel, including those acquired through The Mutual Fund Store;
- determining when to use consultants or third-party software or services;
- preserving our reputation and brand recognition;
- preserving our culture, values and entrepreneurial environment;
- successfully enhancing and expanding the range of services offered to our plan sponsors and plan participants, and achieving such enhancement or expansion sufficiently quickly to meet new or different customer demands or competition;
- developing, improving and scaling our internal administrative infrastructure, particularly our financial, operational, compliance, recordkeeping, communications and other internal systems;
- integrating and maintaining high levels of satisfaction with our services among plan sponsors and plan participants; and
- maintaining high levels of satisfaction with The Mutual Fund Store employees and clients.

We are subject to additional regulatory compliance requirements, as a result of being a public company, which causes additional expenses and challenges for our management team.

We have incurred and will continue to incur significant legal, accounting and other expenses as a public company related to corporate governance compliance. Such compliance includes the requirements of the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Investor Protection and Securities Reform Act of 2010 as well as the rules and regulations implemented by the SEC and The NASDAQ Stock Market. Compliance with such requirements and training The Mutual Fund Store employees with respect to such compliance requirements will divert internal resources and will take a significant amount of time and effort. We rely upon proprietary and customized software, systems and reporting processes, which increases the complexity of our internal control structure and procedures for financial reporting and introduces more opportunities for error. This risk is increased significantly by the need to establish public-company levels of controls on The Mutual Fund Store, which previously operated as a private company.

We are investing resources to comply with evolving laws and regulations, and this investment will result in increased general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. For example, Section 404 of the Sarbanes-Oxley Act of 2002 requires that our management report on, and our independent auditors attest to, the effectiveness of our internal control structure and procedures for financial reporting in our annual report on Form 10-K. Any claim that our internal controls over financial reporting are not effective as defined under Section 404, or that we have failed to comply with other public company regulatory requirements, regardless of merit or ultimate outcome, could subject us to lawsuits, stockholder derivative demands, sanctions or investigations by The NASDAQ Stock Market, the SEC, or other regulatory authorities. This risk is increased significantly by the need to establish public-company levels of controls on The Mutual Fund Store. Furthermore, investor perceptions of our company may suffer, and this could cause a decline in the market price of our stock. Irrespective of compliance with Section 404 or other regulatory requirements, any failure of our internal controls could have a material adverse effect on our stated results of operations and harm our reputation. If we are unable to meet public company regulatory compliance requirements effectively or efficiently, or there are changes in the standards, methods, estimates and judgments used in applying our accounting policies, it could harm our operations, financial reporting or financial results and could result in an adverse opinion on internal controls from our independent auditors.

We could face liability for certain information we disclose, including information based on data we obtain from other parties.

We may be subject to claims for securities law violations, negligence, or other claims relating to the information we disclose, such as the mutual fund assessments we call "scorecards." In addition, The Mutual Fund Store provides information through newsletters and other topical communications to its clients and also hosts a regular radio program. Our businesses also communicate through social media and other online means. Individuals who use our services may take legal action against us if they rely on information that contains an error, or a company may claim that we have made a defamatory statement about it or its employees. We could also be subject to claims based upon the content that is accessible from our website through links to other websites. We rely on a variety of outside parties as the original sources for the information we use in our published data. These sources include securities exchanges, fund companies and transfer agents. Accordingly, in addition to possible exposure for publishing incorrect information that results directly from our own errors, we could face liability based on inaccurate data provided to us by others. Defending claims based on the information we publish could be expensive and time-consuming and could adversely impact our business, operating results and financial condition.

If our operations are interrupted as a result of system failures or service downtime, our business and reputation could suffer.

The success of our business depends upon our ability to obtain and deliver time-sensitive, up-to-date data and information. Key portions of our services are delivered using proprietary and customized software, systems and reporting processes, which require experienced personnel and cannot be duplicated by outside vendors or off-the-shelf products. Our operations and those of our plan providers and plan sponsors are vulnerable to interruption by technical breakdowns, computer hardware and software malfunctions, software viruses, infrastructure failures, fire, earthquake, power loss, telecommunications failure, terrorist attacks, wars, Internet failures, Internet-based attacks and other events beyond our control. Any disruption in our services or operations could harm our ability to perform our services effectively which in turn could result in a reduction in revenue or a claim for substantial damages against us, regardless of whether we are responsible for that failure. We rely on our computer equipment, database storage facilities and other office equipment, which are located primarily in the seismically active San Francisco Bay area. We maintain off-site back-up facilities in Phoenix, Arizona for our database and network equipment, but these facilities could be subject to the same interruptions that may affect our headquarters. If we suffer a significant database or network facility outage, our business could experience disruption until we fully implement our back-up systems. We also depend on certain significant vendors for facility storage and related maintenance of our main technology equipment and data at these locations. Any failure by these vendors to perform those services, any temporary or permanent loss of our equipment or systems or any disruptions to basic infrastructure like power and telecommunications could impede our ability to provide services to our plan participants, harm our reputation, cause plan participants to stop using our investment advisory or Professional Management services, reduce our revenue and harm our business. Our agreements with our plan providers or plan sponsors also require us to meet specified minimum system security and privacy standards. If we fail to meet these standards, our plan sponsors and plan providers may seek to terminate their agreements with us. This in turn could damage our reputation and harm our market position and business.

Our business and reputation could be harmed by The Mutual Fund Store franchisees.

The success of our business depends in part upon the operational and financial success of The Mutual Fund Store franchisees. At the closing of the acquisition of the Mutual Fund Store, approximately 27% of their locations were franchises. The inability of The Mutual Fund Store franchisees to operate successfully could adversely affect our operating results through decreased royalty payments. If a significant franchisee or a significant number of our franchisees become financially distressed, our operating results could be impacted through reduced or delayed royalty payments.

We believe clients expect the same quality of service from our franchisees as they do from Financial Engines and The Mutual Fund Store-owned locations. The providers and sponsors that work with our company may not want to work with The Mutual Fund Store franchises. While our franchise agreements set forth certain operational standards and guidelines, we have limited control over how our franchisees' businesses are run, and do not exercise day-to-day control over them. Any operational or developmental shortcomings of our franchisees, including their failure to comply with applicable laws, are likely to be attributed to our overall operations from the prospective of regulatory bodies and the public. Any such failure could also subject us to regulatory investigation and penalties, have a direct negative impact on the royalty revenue we receive from the franchise, subject us to client claims, as well as harm our reputation and brand.

Various state and federal laws govern our relationship with our franchisees and our potential repurchase of a franchise. If we fail to comply with these laws, we could be liable for damages to franchisees, fines or other penalties. A franchisee or government agency may bring legal action against us based on the franchisor/franchisee relationship. Litigation with our franchisees or government agencies may be expensive, divert management's time and resources and adversely affect both our profits and our important relations with our other franchisees.

We are subject to risks associated with leasing space for The Mutual Fund Store retail locations.

The Mutual Fund Store operates over 125 retail locations, including franchises, which are presently located on leased premises. As leases underlying these locations expire, we or our franchisees may be unable to negotiate a new lease or lease extension, either on commercially acceptable terms or at all, which could cause us or our franchisees to close offices in desirable locations. As a result, our revenues and our brand building initiatives could be adversely affected. Current locations of The Mutual Fund Store and franchised locations may become unattractive to us as demographic patterns change. We generally cannot cancel current leases. Therefore, if an existing or future retail location is not profitable, and we decide to close it, we may nonetheless be committed to perform our obligations under the applicable lease including, among other things, paying the base rent for the balance of the lease term. If we are unable to manage these risks effectively, our business and financial results could be adversely affected.

Buying back franchise operations involves risks that could adversely affect our business and financial results.

Our business plan includes the initiative to repurchase up to 35 franchises of The Mutual Fund Store, beginning in 2016. The Mutual Fund Store franchise agreements generally set forth a formula and a process for repurchasing the franchise. State franchise laws may make it difficult to close and terminate franchise locations. There are a number of risks associated with this initiative, including the difficulty in predicting the ultimate costs, including any employee termination costs, the timing of payments received, the results of negotiations with landlords, and the future impact to our financial results. If we are unable to manage these risks effectively, our business and financial results could be adversely affected.

We have incurred net losses in the past. We may incur net losses in the future.

As of December 31, 2015, we had retained earnings of $1.6 million. We incurred net losses in each year through 2008. We may incur net losses in the future, in which event our operating results and financial condition could be harmed.

Our ability to raise capital in the future may be limited, and our failure to raise capital when needed could prevent us from executing our growth strategy.

We believe that our existing cash and cash equivalents will be sufficient to fund our planned capital expenditures and other anticipated cash needs for the foreseeable future. If our capital resources are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity or debt securities or obtain debt financing. If we decide to seek additional financing, it may result in additional dilution to existing stockholders or, in the case of debt, may result in additional operating or financial covenants. We have not made arrangements to obtain additional financing and there is no assurance that financing, if required, will be available in amounts or on terms acceptable to us, if at all.

Risks Related to Our Industry

Changes in laws applicable to our services may adversely affect our business.

We may be adversely affected as a result of new or revised legislation or regulations promulgated by Congress, the SEC, Department of Labor or other U.S. regulatory authorities or self-regulatory organizations that supervise the financial markets and our industry. In addition, we may be adversely affected by changes in the interpretation of existing laws and rules by these governmental authorities and self-regulatory organizations. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any of the proposals will become law. It is difficult to predict the future impact of the broad and expanding legislative and regulatory requirements affecting our business. For example, additional requirements for fee disclosure have become effective in recent years and there is increased sponsor and consultant focus on the fees associated with all plan services, including our services. We may need to offer more or broader services to justify our fees or may need to lower our fees to retain or expand our existing business relationships. Future legislation or regulation could change or eliminate certain existing restrictions relating to conflicts of interest, which might lower the relative value of our independence, or allow for increased competition. Legislation may reduce or eliminate tax benefits associated with defined contribution plans or otherwise restructure defined contribution plans in a way that affects their use by plan sponsors or plan participants, which could cause a reduction in the number of plans where our services are offered or slow our AUM growth. Future legislation or regulation could affect our ability to offer services for accounts other than 401(k) accounts or may impose requirements for retirement income forecasts and distribution that we might not be able to satisfy, or which might lower the relative value of our services or allow for increased competition. Changes to laws or regulations, or in their interpretation, or any change that results in our becoming subject to the jurisdiction of any additional regulator, such as a self-regulatory organization, could increase our potential liability for offering portfolio management services, investment advice and retirement income, affect our ability to offer our Passive Enrollment option or invalidate pre-dispute arbitration clauses in our agreements, leading to increased costs to litigate any claims against us. Changes to laws or regulations, or in their interpretation, could also increase our legal compliance costs, divert internal resources and make some activities more time-consuming and costly. The laws, rules and regulations applicable to our business may change in the future, and we may not be able to comply with any such changes. If we fail to comply with any applicable law, rule or regulation, we could be fined, sanctioned or barred from providing investment advisory services in the future, which could materially harm our business and reputation.

We are subject to complex regulation, and any compliance failures or regulatory action could adversely affect our business.

The financial services industry is subject to extensive regulation at the federal and state levels. It is very difficult to predict the future impact of the legislative and regulatory requirements affecting our business. The securities laws and other laws that govern our activities as a registered investment advisor are complex and subject to rapid change. The activities of our investment advisory and management operations are subject primarily to provisions of the Investment Advisers Act and ERISA, as well as certain state laws, some of which may provide for private rights of action. We are a fiduciary under ERISA. Our investment advisory services are also subject to state laws including anti-fraud laws and regulations. The Investment Advisers Act addresses, among other things, fiduciary duties, recordkeeping and reporting requirements, advertising, and disclosure requirements and also includes general anti-fraud provisions. We rely on certain regulatory interpretations and guidance in connection with our current business model, including regulations and guidance relating to passive enrollment of participants into our Professional Management service. If we are found to have failed to comply with any applicable law, rule or regulation, we could be fined, sanctioned, required to disgorge fees we have previously collected, required to reimburse clients for any losses in their accounts, required to change our business practices or disclosure, or barred from providing investment advisory services in the future, or we may agree to one or more of such payments, sanctions or changes as part of a settlement agreement, which could materially harm our business and reputation. We may also become subject to additional regulatory and compliance requirements as a result of any expansion or enhancement of our existing services or any services we may offer in the future. For example, we may be subject to insurance licensing or other requirements in connection with our retirement planning services, even if our activities are limited to describing regulated products. A subsidiary of The Mutual Fund Store is an insurance agency, which is an industry in which we have limited experience. Compliance with any new regulatory requirements may divert internal resources and take significant time and effort. Any claim of noncompliance, regardless of merit or ultimate outcome, could subject us to investigation by the SEC or other regulatory authorities. This in turn could result in additional claims or class-action litigation brought on behalf of our clients, any of which could result in substantial cost to us and divert management’s attention and other resources away from our operations. Furthermore, investor perceptions of us may suffer, and this could cause a decline in the market price of our common stock. Our compliance processes may not be sufficient to prevent assertions that we failed to comply with any applicable law, rule or regulation.

Changes in accounting principles or standards, or in the way they are applied, could result in unfavorable accounting charges or effects and unexpected financial reporting fluctuations, and could adversely affect our reported operating results even if there are no underlying changes in the economics of the business.

We prepare our consolidated financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP). These principles are subject to interpretation by the Securities and Exchange Commission (SEC) and various bodies formed to interpret and create appropriate accounting principles and guidance. A change in existing principles, standards or guidance can have a significant effect on our reported results, may retroactively affect previously reported results, could cause unexpected financial reporting fluctuations, and may require us to make costly changes to our internal controls, operational and financial reporting processes.

For example, the Financial Accounting Standards Board (FASB) is currently working together with the International Accounting Standards Board (IASB) to converge certain accounting principles and facilitate more comparable financial reporting between companies that are required to follow U.S. GAAP and those that are required to follow International Financial Reporting Standards (IFRS). In connection with this initiative, the FASB issued a new accounting standard for revenue recognition in May 2015 — Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)" — that supersedes nearly all existing U.S. GAAP revenue recognition guidance. Although we are currently in the process of evaluating the impact of ASU 2014-09 on our consolidated financial statements, it could change the way we account for certain of our sales transactions, even if we do not change the way in which we transact, such as billing for services or collecting cash. This new standard may also impact how we account for certain direct costs associated with our revenues. Adoption of the standard could have a significant impact on our financial statements and may retroactively affect the accounting treatment of transactions completed before adoption.

Further efforts by the FASB and IASB to converge U.S. GAAP and IFRS accounting principles may have a material impact on the way we report financial results in areas including, but not limited to, lease accounting and financial statement presentation. In addition, the SEC may make a determination in the future regarding the incorporation of IFRS into the financial reporting system for U.S. companies. Changes in accounting principles from U.S. GAAP to IFRS, or to converged accounting principles, may have a material impact on our financial statements and may retroactively affect the accounting treatment of previously reported transactions.

We face additional scrutiny when we act as subadvisor, and any failure to comply with regulations or meet expectations could harm our business.

Some of the plan providers to whom we are subadvisors are broker-dealers registered under the Securities Exchange Act of 1934, referred to as the Exchange Act, and are subject to the rules of the Financial Industry Regulatory Authority. When we act as a subadvisor, we may be subject to the oversight by regulators of another advisor. We may be affected by any regulatory examination of that plan provider.

In addition, our subadvisory arrangements are structured to follow Advisory Opinion 2001-09A, a Department of Labor opinion provided to SunAmerica Retirement Markets. Although an advisory opinion provides guidance about the Department of Labor's interpretation of ERISA, it is directly applicable only to the entity to which it is issued. SunAmerica Retirement Markets is an entity unrelated to us or the plan providers to which we act as subadvisor. We could be adversely affected if the Department of Labor increases examination of these subadvisory arrangements or changes the interpretive positions described in the Advisory Opinion. We could be adversely affected if ERISA is amended in a way that overturns or materially changes the Department of Labor's position in Advisory Opinion 2001-09A, such as the imposition of additional requirements relating to conflicts of interest on the plan providers to which we act as a subadvisor. Future legislation or regulation could impose additional requirements relating to conflicts of interest on some of the plan providers to which we act as a subadvisor. These plan providers may not be able to comply with these requirements, and we may therefore not be able to continue to provide our services on a subadvisory basis. In such event, we could incur additional costs to transition our services for affected plan providers and their plan sponsors to another structure.

If government regulation of the Internet or other areas of our business changes or if consumer attitudes toward use of the Internet change, we may need to change the manner in which we conduct our business or incur greater operating expenses.

The adoption, modification or interpretation of laws or regulations relating to the Internet or other areas of our business could adversely affect the manner in which we conduct our business or the overall popularity or growth in use of the Internet. Such laws and regulations may cover sales and other procedures, tariffs, user privacy, data protection, pricing, content, accessibility for those with disabilities, copyrights, distribution, electronic contracts, consumer protection, broadband residential Internet access and the characteristics and quality of services. It is not clear how existing laws governing issues such as property ownership, accessibility, sales and other taxes, libel and personal privacy apply to the Internet. If we are required to comply with new regulations or legislation or new interpretations of existing regulations or legislation, this compliance could cause us to incur additional expenses, make it more difficult to renew subscriptions automatically, make it more difficult to attract new subscribers or otherwise alter our business model. Any of these outcomes could have a material adverse effect on our business, financial condition or results of operations.

Our business will suffer if we do not keep up with rapid technological change, evolving industry standards or changing requirements of plan sponsors, plan providers and plan participants.

We expect technological developments to continue at a rapid pace in our industry. Our success will depend, in part, on our ability to continue to develop our technological expertise, recruit and retain skilled investment and technology professionals, and influence and respond to emerging industry standards and other technological changes:

In addition, we must continue to meet changing plan provider, sponsor and participant expectations and requirements, including addressing plan complexities and meeting demands for specific features and delivery dates. For example, we expect that plan participants will require delivery of our services through tablets or mobile devices and will expect a seamless experience across these channels. We must accomplish all of these tasks in a timely and cost-effective manner without material error, and our failure to do so could harm our business, including materially reducing our revenue and operating results.

Risks Related to our Common Stock

Our share price may be volatile, and the value of an investment in our common stock may decline.

An active, liquid and orderly market for our common stock may not be sustained, which could depress the trading price of our common stock. The price of our common stock has been, and is likely to continue to be, volatile, which means that it could decline substantially within a short period of time. For example, the 2015 range on intra-day sales prices for our common stock on The NASDAQ Global Select Market ranged from $46.34 to $28.23. The market price of shares of our common stock could be subject to wide fluctuations in response to many risk factors listed in this section, many of which are beyond our control, including:

- actual or anticipated fluctuations in our financial condition and operating results;
- general economic and market conditions;
- issuance of new or updated research or reports by securities analysts;
- our announcement of actual results for a fiscal period that are higher or lower than projected results or our announcement of revenue or earnings guidance that is higher or lower than expected;
- changes in the economic performance or market valuations of other companies engaged in providing portfolio management services, investment advice and retirement income;
- loss of a significant amount of existing business;
- public and analyst perception of our acquisition of The Mutual Fund Store and our combined business;
- actual or anticipated changes in our growth rate relative to our competitors;
- actual or anticipated fluctuations in our competitors' operating results or changes in their growth rates;
- regulatory developments in our target markets affecting us, our plan sponsors or our competitors;
- fluctuations in the valuation of companies perceived by investors to be comparable to us;
- share price and volume fluctuations attributable to inconsistent trading volume levels of our shares;
- changes in the amounts, timing or frequency of any cash dividends we may pay;
- the amount, timing or frequency of any share repurchases;
- issuances, sales or expected sales of additional common stock; and
- terrorist attacks or natural disasters or other such events impacting countries where we or our plan sponsors have operations.

Prior to fiscal year 2013, we did not pay any cash dividends on our common stock. For the years ended December 31, 2013, 2014 and 2015, our Board of Directors declared quarterly cash dividends in the amount of $0.05, $0.06 and $0.07 per share, respectively, of common stock outstanding. In February 2016, our Board of Directors declared a quarterly cash dividend of $0.07 per share. While we currently expect 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 our Board of Directors. Any changes in the amounts, timing or frequency of any cash dividends we may pay could adversely affect market and investors' perception of us and cause our stock price to decline.

Furthermore, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may cause the market price of shares of our common stock to decline. In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could seriously harm our business.

If securities or industry press or analysts cease covering our stock, publish negative research or reports about our business, or if they change their recommendations regarding our stock adversely, our stock price and trading volume could decline.

The trading market for our common stock may be influenced by the articles, research and reports that industry or securities analysts and press publish about us or our business. If one or more of the analysts who cover us downgrade our stock, or if industry press publishes negative articles about our company, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

The future sale of shares of our common stock may negatively impact our stock price.

If our stockholders sell substantial amounts of our common stock, the market price of our common stock could fall. A reduction in ownership by a large stockholder could cause the market price of our common stock to fall. In addition, on some days the daily trading volume in our stock is relatively low. The lack of trading activity in our stock may lead to greater fluctuations in our stock price. Low trading volume may also make it difficult for a stockholder to make transactions in a timely fashion.

We have filed a registration statement to register the 9,885,889 shares of our common stock issued as consideration in our acquisition of The Mutual Fund Store, for resale to the public by the former equity holders of The Mutual Fund Store. Sales of these shares, particularly if sold in substantial amounts or all at once or within a short time period, could cause the market price of our common stock to decline and affect our ability to raise equity capital.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We currently lease our principal executive offices in Sunnyvale, California. The lease term is for eight years and expires in May 2020. The premises consist of 80,995 square feet of office space with the right to lease additional space. We also lease 33,860 square feet of office space in Boston, Massachusetts under a lease term through July 2025. This Boston, Massachusetts lease includes ongoing right of first offer with respect to any contiguous space that becomes available, and a one-time expansion option with respect to specific space on the floor below the leased premises. In addition, we lease 24,788 square feet of office space in Phoenix, Arizona, primarily for our operations and call center. In June 2015, we added to and incorporated an additional 10,953 square feet of adjacent space in Phoenix for a total of 35,741 square feet, totaling $5.3 million in remaining minimum lease payments through December 2021 as of December 31, 2015.

In February 2016, we acquired the business of The Mutual Fund Store. The Mutual Fund Store leases a 33,100 square foot principal executive office in Overland Park, Kansas under a lease term of 11 years expiring in March 2027. A lease covering The Mutual Fund Store’s previous principal executive offices in Overland Park, Kansas for premises of approximately 21,330 square feet expires in September 2016. The Mutual Fund Store also operates or franchises over

125 locations in 39 states.

Item 3. Legal Proceedings

We are currently not party to any material legal proceedings. We may from time to time become involved in litigation relating to claims arising from our ordinary course of business. These claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources.

Item 4. Mine Safety Disclosures

None.

PART II