Envestnet 'intentionally' destroyed crucial evidence, a judge has ruled, upping the stakes and dealing a potentially fatal blow in its six-year legal battle with FinApps

Federal District Court Judge Jennifer L. Hall has given both parties until Jan. 20 to jointly report on the case, which strongly suggests a settlement is in the offing.

Author Brooke Southall January 5, 2026 at 11:04 PM

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Marc Kasowitz: Judge found 'intentional destruction of evidence.'

The outcome of a long-running, $100 million lawsuit between Envestnet and former partner Fininancial Apps could hinge on a technicality -- the definition of a “paper trail."

Federal District Court Judge Jennifer L. Hall, last week (Dec 30), ordered the parties to return to court on Jan. 20 with a joint report on how to proceed with the case after upholding the findings of Special Master Chad S.C. Stover.

Stover determined in an August report and recommendation (R&R) that Envestnet had deliberately destroyed evidence collected and logged by an Envestnet-subscribed data service, ironically known as “Papertrail.” See: Envestnet's six-year legal fight over software 'misappropriation' dealt likely major blow after a key ruling that it purposely destroyed possible damning evidence

Jennifer L. Hall: Orders parties to report back by Jan. 20.

As part of his finding, Stover cited the practical definition of “paper trail" from Merriam Webster's collegiate dictionary, 12th edition: As in “They covered up the fraud and were careful not to leave a paper trail," he noted citing an example of its usage.

[A]s indicated by the name “Papertrail,” the logs were relevant to FinancialApps’s trade secret misappropriation claims," the Special Master concluded.

Bad to worse

After reviewing the record, Hall agreed with Stover's finding that FinApps had proven Envestnet's’ intent to destroy, or ”spoliate," potentially damaging evidence and upheld a recommendation to sanction the defendant.

"The appropriate remedy is to permit evidence of the spoliation to be presented at trial and permit (but not require) the factfinder to presume that the Papertrail evidence would have been unfavorable to defendants," she wrote in her decision.

Marc Kasowitz, FinApps' lead counsel, applauded the judge's decision.

“The Court’s well-reasoned decision holds Envestnet and Yodlee accountable for their intentional destruction of highly relevant evidence," he told RIABiz. "Now, after more than six years of litigation, FinancialApps looks forward to bringing this action to trial.”

Rising cost

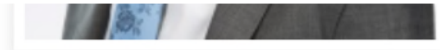
But Hall's order for the parties to submit a joint report also strongly suggests the judge is angling for an out-of-court settlement.

Ari Sonneberg: The price for settling has now gone up.

“If the Special Master’s ruling wasn’t an impetus for Envestnet to start considering settling this case then, one would think that this ruling will be," said Ari Sonneberg, a partner with Wagner Law Group.

"One would have to imagine that the price for settling has now gone up as a result of this new ruling,” he added. “[But] I think the possibility of an outcome involving treble damages should this case go to trial, is very real.”

Nonetheless, this takes Envestnet's legal circumstances from bad to worse, he says.



Presumed unfavorable

The latest twist in the case began two years ago, when FinApps filed a motion, claiming Envestnet destroyed key evidence when it canceled its data subscription service, Papertrail, and deleted all of its data.

Papertrail, known as “a flight data recorder for apps,” logged all users, system activity, and system events and automatically generated a searchable archive to track apps.

That included “Risk Insight,” a FinApps software app that generated financial profiles of credit applicants to help financial institutions make lending decisions.

The dispute itself arose in 2019 when FinApps accused Envestnet of pirating Risk Insight software to develop a competing product. Settlement negotiations fell through, and FinApps filed its lawsuit on July 17, 2019.

The same day, Envestnet decided to terminate its Papertrail subscription and all of its archived data was destroyed after a 30-day waiting period. That led to the special master's review and Hall's most recent ruling.

“The fact that Defendants made a deliberate decision to destroy a highly relevant data source called “Papertrail” six days after Defendants were sued, notwithstanding that the monthly cost to preserve the data was negligible—supports a finding of intent to deprive,” she wrote.

The jury's likelihood of taking a punitive stance was only stoked by the judge's decision to allow the deleted data to be presumed to be unfavorable to defendants, according to Sonneberg.

“One would have to believe that a jury will not look favorably at Envestnet upon learning that it was in possession of evidence highly material to the case, and that it destroyed that evidence – all the more so when the jury receives an instruction that it can infer that the destroyed evidence would have been unfavorable to Envestnet.”

Intent to deprive

In defense, Envestnet argued in a motion that the Papertrail data would only provide “circumstantial evidence” – not direct evidence – of an “intent to spoliate.”

Therefore, the data was an insufficient basis for the special master to find that Envestnet acted “with intent” to hide damaging evidence.

But Hall disagreed. “The state of mind with which one’s opponent acts usually cannot be proven directly, as one cannot read their opponent’s mind and tell what he or she is thinking," she wrote.

"Intent is commonly proven with circumstantial evidence (even in the criminal law, which has a higher burden of proof)."

The timing of Papertrail's termination only six days after FinApps filed suit also weighed into the special master's and the judge's decision.

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Calling time

The data was potentially relevant because it covered a period up to and after May 17, 2019, the date of a FinApps letter advising Envestnet of potential claims for allegedly misappropriating its software.

The letter asked subsidiary Yodlee Inc. to "ensure preservation of all relevant information, including …electronic files and data."

Bain Capital inherited the suit when it acquired Envestnet in 2024 in a take-private transaction for an estimated $4.5 billion and an additional $1 billion pledge to revamp its one-stop TAMP, software provider, or SMA platform.

As such, Bain may be ready to call time on the hotly contested case, even if it involves a multi-million dollar settlement. It's small stakes compared with the $7 trillion Envestnet administers on behalf of 110,000 independent financial advisors. as well as brands like MoneyGuidePro and Tamarac.

In September, Bain closed on the sale of Yodlee, its open finance and data analytics subsidiary, to STG, a private equity firm.

As such, it's five-year vision no longer includes chasing that banking market or the need for software that did what FinApps was designed for.

If the case were to go to trial, it would be heard in a federal court in Delaware.

Brooke lives on a houseboat, works in an office and juggles calls across the five time zones and four countries his small team works. He's out to prove an economic major can make a living as a journalist and that articles need not be a loss leader if they are written well and geared to an intelligent readership. @RIABiz

Keith Girard contributed to the editing of this article.

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