Envestnet's six-year legal fight over software 'misappropriation' dealt likely major blow after a key ruling that it purposely destroyed possible damning evidence

Special court-appointed master blasts Envestnet for handling of crucial data, clears way for jury trial but also stops short of recommending harshest sanction

Author **Brooke Southall** August 20, 2025 at 11:27 PM

0 Comments

Ari Sonneberg: If this case does go to trial, Envestnet will likely have a big hole to dig out of

> ***Brooke's Note: Yodlee was an endless, bottomless problem for Envestnet. It's the ultimate cautionary tale about failing to cut your losses. Now all Yodlee's executives are gone – never mind Yodlee itself. And even all the Envestnet executives involved in buying and keeping it, and the people who prolonged its legal mess, are gone. But the legal mess remains. And the details here reveal just why it was a skeleton that needed to hide in the closet as long as possible.***

The finding comes six years into a $100 million lawsuit brought by FinancialApps (FinApps), alleging Envestnet and subsidiary Yodlee licensed its software, then expropriated the code for its own app. See: Jud Bergman admits Envestnet will be set back months, if not quarters at hands of Marc Kasowitz and his client, causing firm's shares to plummet

The latest twist began in January a year ago, when FinApps filed a motion claiming the defendants destroyed key evidence – data from subscription service "Papertrail" and data from an Amazon Web Services (AWS) – that could have had a material effect on the outcome of the case.

Chad S.C. Stover: 'The defendants acted with an intent to deprive.'

The motion, for what's known as a "finding of spoliation," sought sanctions that allow a jury to presume the deleted data would have hurt Envestnet's case – a big deal, says Ari Sonneberg, partner with Wagner Law Group.

Envestnet countered with its own motion for a finding of spoliation against FinApps.

Delaware attorney Chad S.C. Stover was named special master by the court, and tasked with unwinding the claims and making a report with recommendations.

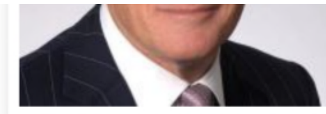
In a resulting 29-page filing, Aug 7, Stover advised the court to grant FinApps' motion relating to Papertrail -- essentially accusing Envestnet of a cover-up – while denying all the remaining motions.

"The special master's findings and recommendations are not good for Envestnet," says Sonneberg.

An Envestnet spokesman, citing company policy, declined to comment on "pending litigation." See: Envestnet's five-year legal slugfest with fintech over alleged 'Trojan Horse' theft of killer app cleared for trial, likely a speedbump, not a wrench, for Bain acquisition or Yodlee sale

Digging a hole

Plaintiff's lawyer, Marc Kasowitz, asserted in a statement that the defendants acted with an "intent to deprive" FinancialApps of "highly relevant" data that would have been "some of the best evidence' of the defendants' alleged misconduct." See: Entrepreneurial firm hits Envestnet with $100-million lawsuit for alleged Yodlee 'Trojan Horse' scheme used to steal proprietary technology



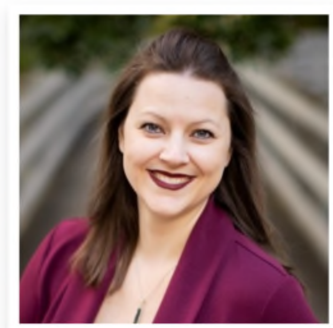
The defendants were legally obligated to preserve the data, but “unilaterally and intentionally” canceled their subscription to the service, instead, days after FinancialApps filed its lawsuit.

Envestnet would now go to trial looking up at the light, Sonneberg says.

“If this case does go to trial, Envestnet will likely have a big hole to dig out of at the outset.” He adds: "I don’t think juries or judges look favorably upon the destruction of highly relevant evidence,"

Nor do the odds of avoiding trial look good – without paying big, Sonneberg says. “This may also serve as an impetus for Envestnet to try to settle instead of digging in.”

Gigabytes



Katie McCarthy: Advice to back up data was ignored.

Under federal civil procedure, losing electronically stored information by failing to take reasonable steps to preserve it in anticipation of litigation could prejudice a trial and equates “roughly” to negligence.

Stover told the court he reviewed “extensive” briefings on the motions, supporting declarations and exhibits, and conducted a hearing via Zoom before reaching his conclusions.

The report names a whole list of Envestnet and Yodlee executives apparently in the chain of decision-making surrounding Papertrail's cancellation.

The service, which only costs $395 a month, "provided 25 gigabytes of log storage per month, search capability for two weeks’ worth of logs, and—most importantly—one year’s worth of downloadable log archives," Stover noted.

“Doing the math, it is likely that at the time of its decommissioning, defendants’ Papertrail account may have archived upward of 300 gigabytes of logs spanning the period from July 23, 2018, through July 23, 2019,” he added.

Aging out data

FinApps' software, known as “Risk Insight,” generated financial profiles of credit applicants to help financial institutions decide whether to lend money.

Papertrail logged all users, system activity, and system events and automatically provided “a unified and streamlined interface to efficiently access, search, and archive Risk Insight’s application logs.”

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

Papertrail as a service that could be canceled "right away."

"Please confirm no data is needed from this account," she wrote, suggesting that its data might need to be backed up.

Within a day, Ganesh Mani (at the time, Yodlee's Director of Site Reliability Engineering) confirmed that Papertrail could be canceled, and the service was terminated "by July 23, 2019, without any attempt to back up its contents."

Under its software services agreement, Papertrail deleted all user and data preferences immediately upon cancelation, and the stored data was allowed to "age out" after 30 days.

Intent to deprive

"The Papertrail logs would have shown who from defendants accessed the Risk Insight software and the history of what they were doing during the exact timeframe when defendants were developing their competing product," Stover wrote in his findings.

"If, as FinancialApps alleges, defendants were misusing Risk Insight to develop their competing software product, the Papertrail logs would have likely been some of the best evidence of that misuse.

"Yet if, as defendants allege, their use of the Risk Insight software was permitted by the parties' agreement, and they did nothing improper, the logs likely would have been exculpatory," he added.

Stover concluded that Envestnet "knew or should have known" the data was relevant and could have reached out to FinApps if it had any doubts. "Defendants never reached out.,.."

"Instead, they unilaterally and intentionally canceled the subscription days after FinancialApps filed this lawsuit."

"I also find the defendants acted with an intent to deprive."

While Stover found that sanctions were appropriate, he stopped short of recommending the most severe punishment, a default judgment in favor of FinApps. Instead, he suggested the least possible sanction.

He said FinApps should be allowed to present at trial that the defendants purposely deleted the data and that it was likely unfavorable to their case, but stopped short of allowing FinApps to claim that the data likely supported its allegations.

"This portion of the requested relief goes too far in my opinion and introduces uncertainty about what allegations the data would have tended to support," Stover concluded.

Critical data

says.

FinApps did not even ask for one, according to the filing.

Though the Master stopped short of summary judgment, it did note just how critical the deleted data would have been in following the alleged intellectual misappropriation, a spokesman for Kawowitz said in response to a query on this point.

Legal wrangling

Evestnet scored an early victory in 2019 when it won the dismissal of copyright infringement, unfair competition, and fraud claims. But FinancialApps prevailed on other counts.

A pivotal ruling came in 2021 when the Court ordered that FinancialApps's claims against Yodlee—as well as Yodlee's counterclaims against FinancialApps — be tried before the judge instead of a jury under a waiver in their initial services agreement.

FinancialApps's claims against Envestnet (and Envestnet's counterclaim) were assigned to be heard by a jury. Fact discovery concluded in Sept 2022.

Envestnet's series of counterclaims, including one to absolve Envestnet executives by pinning responsibility on Yodlee underlings, ultimately proved futile, as well.

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.

Technology

Envestnet | Yodlee | FinancialApps

(0) COMMENTS

POST A COMMENT

Related Moves