

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2011

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 001-34835

**Investnet, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**35 East Wacker Drive, Suite 2400, Chicago, IL**  
(Address of principal executive offices)

**20-1409613**  
(I.R.S Employer  
Identification No.)

**60601**  
(Zip Code)

**Registrant's telephone number, including area code:**  
**(312) 827-2800**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

As of November 1, 2011, 31,800,850 shares of the common stock with a par value of \$0.005 per share were outstanding.

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**Envestnet, Inc .**  
**Condensed Consolidated Balance Sheets**  
**(In thousands, except share information)**  
**(Unaudited)**

	September 30, 2011	December 31, 2010
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 83,553	\$ 67,668
Fees receivable	8,591	9,135
Deferred tax assets, net	—	107
Prepaid expenses and other current assets	2,898	2,026
Total current assets	<u>95,042</u>	<u>78,936</u>
Property and equipment, net	11,125	9,713
Internally developed software, net	3,565	3,621
Intangible assets, net	690	1,330
Goodwill	2,031	2,031
Deferred tax assets, net	11,015	13,649
Customer inducements	26,606	30,400
Other non-current assets	3,238	2,188
Total assets	<u>\$ 153,312</u>	<u>\$ 141,868</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accrued expenses	\$ 13,300	\$ 12,859
Accounts payable	2,013	1,707
Customer inducements payable	1,000	1,000
Deferred tax liabilities, net	53	—
Note payable	168	159
Deferred revenue	113	232
Total current liabilities	<u>16,647</u>	<u>15,957</u>
Deferred rent liability	1,350	1,244
Lease incentive liability	3,022	2,771
Customer inducements payable	18,415	18,806
Note payable	—	159
Other non-current liabilities	816	612
Total liabilities	<u>40,250</u>	<u>39,549</u>
Commitments and contingencies		
Stockholders' equity		
Preferred stock	—	—
Common stock, par value \$0.005, 500,000,000 shares authorized as of September 30, 2011 and December 31, 2010; 43,505,683 and 43,068,371 shares issued as of September 30, 2011 and December 31, 2010, respectively; 31,800,510 and 31,368,822 shares outstanding as of September 30, 2011 and December 31, 2010, respectively	218	215
Additional paid-in capital	162,836	157,778
Accumulated deficit	(39,571)	(45,347)
Treasury stock at cost, 11,705,173 and 11,699,549 shares as of September 30, 2011 and December 31, 2010, respectively	<u>(10,421)</u>	<u>(10,327)</u>
Total stockholders' equity	<u>113,062</u>	<u>102,319</u>
Total liabilities and stockholders' equity	<u>\$ 153,312</u>	<u>\$ 141,868</u>

*See accompanying notes to unaudited Condensed Consolidated Financial Statements.*

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**Envestnet, Inc.**  
**Condensed Consolidated Statements of Operations**  
(In thousands, except share and per share information)  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
<b>Revenues:</b>				
Assets under management or administration	\$ 25,971	\$ 19,001	\$ 74,669	\$ 54,112
Licensing and professional services	6,069	5,569	17,967	16,337
Total revenues	<u>32,040</u>	<u>24,570</u>	<u>92,636</u>	<u>70,449</u>
<b>Operating expenses:</b>				
Cost of revenues	11,429	7,405	32,474	22,123
Compensation and benefits	10,160	9,917	30,693	27,190
General and administration	5,675	4,454	15,809	16,645
Depreciation and amortization	1,550	1,451	4,676	4,210
Restructuring charges	—	96	53	915
Total operating expenses	<u>28,814</u>	<u>23,323</u>	<u>83,705</u>	<u>71,083</u>
Income (loss) from operations	<u>3,226</u>	<u>1,247</u>	<u>8,931</u>	<u>(634)</u>
<b>Other income (expense):</b>				
Interest income	19	34	65	119
Interest expense	(206)	(193)	(621)	(321)
Other income	—	—	1,100	—
Unrealized gain (loss) on investments	(8)	7	(4)	7
Total other income (expense)	<u>(195)</u>	<u>(152)</u>	<u>540</u>	<u>(195)</u>
Income (loss) before income tax provision	<u>3,031</u>	<u>1,095</u>	<u>9,471</u>	<u>(829)</u>
Income tax provision	<u>1,106</u>	<u>470</u>	<u>3,695</u>	<u>664</u>
Net income (loss)	1,925	625	5,776	(1,493)
Less preferred stock dividends	—	(65)	—	(422)
Less net income allocated to participating preferred stock	—	(75)	—	—
Net income (loss) attributable to common stockholders	<u>\$ 1,925</u>	<u>\$ 485</u>	<u>\$ 5,776</u>	<u>\$ (1,915)</u>
<b>Net income (loss) per share attributable to common stockholders:</b>				
Basic	<u>\$ 0.06</u>	<u>\$ 0.02</u>	<u>\$ 0.18</u>	<u>\$ (0.11)</u>
Diluted	<u>\$ 0.06</u>	<u>\$ 0.02</u>	<u>\$ 0.18</u>	<u>\$ (0.11)</u>
<b>Weighted average common shares outstanding:</b>				
Basic	<u>31,760,998</u>	<u>25,567,700</u>	<u>31,589,279</u>	<u>17,247,149</u>
Diluted	<u>32,871,269</u>	<u>26,348,651</u>	<u>32,937,601</u>	<u>17,247,149</u>

*See accompanying notes to unaudited Condensed Consolidated Financial Statements.*

**Investnet, Inc.**  
**Condensed Consolidated Statements of Stockholders' Equity**  
**(In thousands, except share information)**  
**(Unaudited)**

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated deficit	Total Stockholders' Equity
	Shares	Amount	Common Shares	Amount			
Balance, December 31, 2010	43,068,371	\$ 215	(11,699,549)	\$(10,327)	\$157,778	\$ (45,347)	\$ 102,319
Exercise of stock options	437,312	3	—	—	2,699	—	2,702
Stock-based compensation	—	—	—	—	2,359	—	2,359
Purchase of treasury stock (at cost)	—	—	(5,624)	(94)	—	—	(94)
Net income	—	—	—	—	—	5,776	5,776
Balance, September 30, 2011	<u>43,505,683</u>	<u>\$ 218</u>	<u>(11,705,173)</u>	<u>\$(10,421)</u>	<u>\$162,836</u>	<u>\$ (39,571)</u>	<u>\$ 113,062</u>

*See accompanying notes to unaudited Condensed Consolidated Financial Statements.*

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**Envestnet, Inc.**  
**Condensed Consolidated Statements of Cash Flows**  
**(In thousands)**  
**(Unaudited)**

	<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 5,776	\$ (1,493)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,676	4,210
Amortization of customer inducements	3,620	1,931
Deferred rent and lease incentive	357	128
Provision for doubtful accounts	—	2,668
Unrealized (gain) loss on investments	4	(7)
Impairment of customer inducement asset	174	—
Deferred income taxes	2,794	709
Stock-based compensation	2,359	1,108
Interest expense	621	321
Changes in operating assets and liabilities:		
Fees receivable	544	(2,345)
Prepaid expenses and other current assets	(872)	(1,170)
Other non-current assets	(1,077)	82
Customer inducements	(1,000)	(11,300)
Accrued expenses	441	1,151
Accounts payable	306	(132)
Deferred revenue	(119)	57
Other non-current liabilities	204	101
Net cash provided by (used in) operating activities	<u>18,808</u>	<u>(3,981)</u>
<b>INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(4,257)	(3,378)
Capitalization of internally developed software	(1,135)	(962)
Repayment of notes payable	(162)	—
Proceeds from repayment of notes receivable	—	985
Increase in notes receivable	—	(90)
Proceeds from investments	23	26
Acquisition of businesses, net of cash acquired	—	(917)
Net cash used in investing activities	<u>(5,531)</u>	<u>(4,336)</u>
<b>FINANCING ACTIVITIES:</b>		
Proceeds from issuance of preferred stock	—	1,525
Proceeds from exercise of stock options	2,702	1,343
Net proceed from issuance of common stock	—	42,066
Purchase of treasury stock	(94)	(3,231)
Preferred stock dividends	—	(1,346)
Net cash provided by financing activities	<u>2,608</u>	<u>40,357</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>15,885</b>	<b>32,040</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>67,668</b>	<b>31,525</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 83,553</b>	<b>\$ 63,565</b>
Supplemental disclosure of cash flow information - cash paid during the period for:		
Income taxes	\$ 732	\$ 106
Supplemental disclosure of non-cash investing and financing activities:		
Leasehold improvements funded by lease incentive	491	119
Customer inducement payable	—	17,568
Issuance of warrant for customer inducement	—	2,946
Note payable assumed in a business acquisition	—	300

*See accompanying notes to unaudited Condensed Consolidated Financial Statements.*

**Envestnet, Inc.**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
**(In thousands, except share and per share amounts)**

**1. Organization and Description of Business**

Envestnet, Inc. (“Envestnet”) and its subsidiaries (collectively, the “Company”) provides open-architecture wealth management services and technology to independent financial advisors and financial institutions. These services and related technology are provided via the Envestnet Advisor Suite™ and Envestnet | PMC, the Company’s investment consulting group. The Company’s headquarters are in Chicago, Illinois. Principal offices are located in: New York, New York; Denver, Colorado; Sunnyvale, California; Boston, Massachusetts; Landis, North Carolina and two locations in Trivandrum, India.

The Company’s Advisor Suite is a platform of integrated, internet-based technology applications and related services that provide portfolio diagnostics, proposal generation, investment model management, rebalancing and trading, portfolio performance reporting and monitoring solutions, billing, and back-office and middle-office operations and administration.

The Company’s investment consulting group, Envestnet | PMC, provides investment manager due diligence and research, a full spectrum of investment offerings supported by both proprietary and third-party research, and overlay portfolio management services.

Through these platform and service offerings, the Company provides open-architecture support for a wide range of investment products (separately managed accounts, multi-manager accounts, mutual funds, exchange-traded funds, stock baskets, alternative investments, and other fee-based investment solutions) from Envestnet | PMC and other leading investment providers via multiple custodians, and also account administration and reporting services.

Envestnet operates three registered investment advisor subsidiaries (“RIAs”) and a registered broker-dealer. The RIAs are registered with the Securities and Exchange Commission (“SEC”). The broker-dealer is registered with the SEC, all 50 states and the District of Columbia and is a member of the Financial Industry Regulatory Authority (“FINRA”).

**2. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of the Company as of September 30, 2011 and for the three and nine months ended September 30, 2011 and 2010 have not been audited by an independent registered public accounting firm. These unaudited condensed consolidated financial statements reflect all normal recurring adjustments which are, in the opinion of management, necessary to present fairly the Company’s financial position as of September 30, 2011 and the results of operations, stockholders’ equity and cash flows for the periods presented herein. The unaudited condensed consolidated balance sheet as of December 31, 2010 was derived from the Company’s audited financial statements for the year ended December 31, 2010 but does not include all disclosures, including notes required by accounting principles generally accepted in the United States of America (“U.S. GAAP”). The results of operations for the three and nine months ended September 30, 2011 are not necessarily indicative of the operating results to be expected for other interim periods or for the full fiscal year. Dollar amounts contained in these unaudited condensed consolidated financial statements are in thousands, except share and per share amounts.

The unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K filed for the year ended December 31, 2010.

The preparation of these unaudited condensed consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in these unaudited condensed consolidated financial statements and accompanying notes. Significant estimates in these unaudited condensed consolidated financial statements include estimating uncollectible receivables, costs capitalized for internally developed software, valuations and assumptions used for impairment testing of goodwill, intangible and other long-lived assets, fair value of stock and stock options issued, fair value of customer inducement assets and liabilities, realization of deferred tax assets and valuation and other assumptions used to allocate purchase prices in business combinations. Actual results could differ materially from those estimates under different assumptions or conditions.

**Envestnet, Inc.**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
**(In thousands, except share and per share amounts)**

**Recent Accounting Pronouncements**

In October 2009, the FASB issued authoritative guidance that enables vendors to account for products or services sold to customers (deliverables) separately rather than as a combined unit, as was generally required by past guidance. The revised guidance provides for two significant changes to the existing multiple element revenue arrangement guidance. The first change relates to the determination of when individual deliverables included in a multiple element arrangement may be treated as separate units of accounting. The second change modifies the manner in which the transaction consideration is allocated across the separately identified deliverables. This guidance also significantly expands the disclosures required for multiple-element revenue arrangements. The guidance is required to be adopted in fiscal years beginning on or after June 15, 2010, but early adoption is permitted. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In October 2009, the FASB issued authoritative guidance that changes the accounting model for revenue arrangements that include both tangible products and software elements so that tangible products containing software components and nonsoftware components that function together to deliver the tangible product's essential functionality are no longer within the scope of the software revenue guidance in ASC Subtopic 985-605. In addition, this guidance requires hardware components of a tangible product containing software components always be excluded from the software revenue guidance. The guidance is required to be adopted in fiscal years beginning on or after June 15, 2010, but early adoption is permitted. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In June 2011, the FASB issued new guidance that amends current comprehensive income guidance. The new guidance eliminates the option to present the components of other comprehensive income as part of the statement of shareholders' equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. Additionally, the guidance requires an entity to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. The new guidance will be effective January 1, 2012. The adoption of the new guidance will not have a material impact on the Company's consolidated financial statements.

In September 2011, the FASB issued authoritative guidance in ASC 350 "Intangibles—Goodwill and other" intended to simplify goodwill impairment testing. Entities will be allowed to perform a qualitative assessment on goodwill impairment to determine whether it is more likely than not (a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. This guidance is effective for goodwill impairment tests performed in interim and annual periods for fiscal years beginning after December 15, 2011. The adoption of the new guidance will not have a material impact on the Company's consolidated financial statements.

**3. Customer Inducements**

Customer inducements assets and payables consist of the following:

	September 30, 2011	December 31, 2010
Customer inducements assets	\$ 26,606	\$ 30,400
Customer inducements payables:		
Current	\$ 1,000	\$ 1,000
Non-current	18,415	18,806
	\$ 19,415	\$ 19,806



**Investnet, Inc.**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
(In thousands, except share and per share amounts)

Amortization and imputed interest expense was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Amortization expense	\$ 1,207	\$ 1,146	\$3,620	\$1,931
Imputed interest expense	202	186	609	309

**4. Property and Equipment**

Property and equipment consist of the following:

	Estimated Useful Life	September 30,	December 31,
		2011	2010
<b>Cost:</b>			
Office furniture and fixtures	5-7 years	\$ 2,438	\$ 1,996
Computer equipment and software	3 years	17,864	14,600
Other office equipment	5 years	598	598
Leasehold improvements	Shorter of the term of the lease or useful life of the asset	5,797	5,247
		26,697	22,441
Less accumulated depreciation and amortization		(15,572)	(12,728)
Property and equipment, net		<u>\$ 11,125</u>	<u>\$ 9,713</u>

Depreciation and amortization expense for property and equipment was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Depreciation and amortization expense	<u>\$ 1,031</u>	<u>\$ 767</u>	<u>\$2,845</u>	<u>\$2,171</u>

**5. Internally Developed Software**

Internally developed software consists of the following:

	Estimated Useful Life	September 30,	December 31,
		2011	2010
Internally developed software	5 years	\$ 10,536	\$ 9,401
Less accumulated depreciation		(6,971)	(5,780)
Internally developed software, net		<u>\$ 3,565</u>	<u>\$ 3,621</u>

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**Investnet, Inc.**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
(In thousands, except share and per share amounts)

Depreciation expense for internally developed software was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Depreciation expense	\$ 392	\$ 401	\$1,191	\$1,205

**6. Intangible Assets**

Intangible assets consist of the following:

	Useful Life	September 30, 2011			December 31, 2010		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
NAM customer list	7 years	\$ 4,305	(4,305)	\$ —	\$ 4,305	(4,049)	\$ 256
Oberon customer list	8 years	3,644	(3,075)	569	3,644	(2,733)	911
B-Ready customer list	4 years	209	(88)	121	209	(46)	163
Total intangible assets		\$ 8,158	\$ (7,468)	\$ 690	\$ 8,158	\$ (6,828)	\$ 1,330

Amortization expense for intangible assets was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Amortization expense	\$ 127	\$ 283	\$ 640	\$ 834

**7. Other Non-Current Assets**

Other non-current assets consist of the following:

	September 30, 2011	December 31, 2010
Investment in private company	\$ 1,250	\$ 1,250
Deposits	1,563	488
Other	425	450
Total other non-current assets	\$ 3,238	\$ 2,188

**Investnet, Inc.**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
**(In thousands, except share and per share amounts)**

**8. Fair Value Measurements**

Financial assets and liabilities recorded at fair value in the consolidated balance sheet are categorized based upon a fair value hierarchy established by U.S. GAAP, which prioritizes the inputs used to measure fair value into the following levels:

- Level 1: Inputs based on quoted market prices in active markets for identical assets or liabilities at the measurement date.
- Level 2: Inputs based on quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or inputs that are observable and can be corroborated by observable market data.
- Level 3: Inputs reflect management's best estimates and assumptions of what market participants would use in pricing the asset or liability at the measurement date. The inputs are unobservable in the market and significant to the valuation of the instruments.

***Fair Value on a Recurring Basis:***

The Company periodically invests excess cash in money-market funds not insured by the FDIC. The Company believes that the investments in money market funds are on deposit with creditworthy financial institutions and that the funds are highly liquid. The fair values of the Company's investments in money market funds are based on the daily quoted market prices for the net asset value of the various money market funds. These money market funds are considered Level 1 assets and totaled approximately \$70,963 and \$55,173 as of September 30, 2011 and December 31, 2010, respectively and are included in cash and cash equivalents in the unaudited condensed consolidated balance sheet.

Investments in mutual funds are quoted based on the daily market prices, are considered Level 1 assets and totaled approximately \$80 and \$84 as of September 30, 2011 and December 31, 2010, respectively and are included in other non-current assets in the unaudited condensed consolidated balance sheet.

***Fair Value on a Non-Recurring Basis:***

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Company is required to record assets and liabilities at fair value on a non-recurring basis as required by U.S. GAAP. Generally, assets are recorded at fair value on a non-recurring basis as a result of impairment charges. Other than as described below, the Company did not measure any significant assets or liabilities at fair value on a non-recurring basis during the three and nine months ended September 30, 2011.

Non-marketable investments, which totaled \$1,363 and \$1,386 at September 30, 2011 and December 31, 2010, respectively, represent the Company's investments in privately held companies and alternative investments. Non-marketable investments are priced at cost and reviewed for impairment due to an absence of market activity and market data and are considered Level 3 assets. These investments are included in other non-current assets in the unaudited condensed consolidated balance sheet.

**Envestnet, Inc.**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
(In thousands, except share and per share amounts)

**9. Accrued Expenses**

Accrued expenses consist of the following:

	September 30, 2011	December 31, 2010
Accrued investment manager fees	\$ 8,476	\$ 6,892
Accrued compensation and related taxes	3,325	4,309
Accrued professional services	308	280
Accrued restructuring charges	98	228
Other accrued expenses	1,093	1,150
Total accrued expenses	<u>\$ 13,300</u>	<u>\$ 12,859</u>

Effective March 31, 2010, the Company closed its Los Angeles office in order to more appropriately align and manage the Company's resources. In the three and nine months ended September 30, 2011, the Company recognized pretax restructuring charges of zero and \$53, respectively, primarily for relocation expenses.

The summary of activity in accrued restructuring charges was as follows:

	Accrued Restructuring Charges
Balance at December 31, 2009	\$ —
Restructuring provision incurred	1,144
Payments	(733)
Adjustments	(183)
Balance at December 31, 2010	228
Restructuring provision incurred	10
Payments	(51)
Balance at March 31, 2011	187
Restructuring provision incurred	43
Payments	(87)
Balance at June 30, 2011	143
Restructuring provision incurred	—
Payments	(45)
Balance at September 30, 2011	<u>\$ 98</u>

**10. Income Taxes**

U.S. GAAP requires the interim period tax provision to be determined as follows:

- At the end of each quarter, the Company estimates the tax that will be provided for the year stated as a percent of estimated "ordinary" income for the year. The term ordinary income refers to earnings from continuing operations before income taxes, excluding significant unusual or infrequently occurring items. The estimated annual effective rate is applied to the year-to-date "ordinary" income at the end of each quarter to compute the year-to-date tax applicable to ordinary income. The tax expense or benefit related to ordinary income in each quarter is the difference between the most recent year-to-date and the prior quarter year-to-date computations.
- The tax effects of significant unusual or infrequently occurring items are recognized as discrete items in the interim period in which the events occur. The impact of changes in tax laws or rates on deferred tax amounts, the effects of changes in judgment about beginning of the year valuation allowances and change in tax reserves resulting from the finalization of tax audits or reviews are examples of significant unusual or infrequently occurring items that are recognized as discrete items in the interim period in which the event occurs.

**Envestnet, Inc.**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
**(In thousands, except share and per share amounts)**

The determination of the annual effective tax rate is based upon a number of significant estimates and judgments, including the estimated annual pretax income of the Company and the development of tax planning strategies during the year.

The following table includes tax expense and the effective tax rate for the Company's income from operations:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Income (loss) before income taxes	\$3,031	\$ 1,095	\$9,471	\$ (829)
Income tax provision	1,106	470	3,695	664
Effective tax rate	36.5%	42.9%	39.0%	*

\* Not meaningful.

In 2010, the write-off of certain notes receivable was considered a capital loss for tax purposes. In assessing the realizability of this deferred tax asset, management determined that it was more-likely-than-not that all of this asset would not be realized and accordingly recorded a valuation allowance in the amount of \$926. The valuation allowance for net deferred tax assets as of September 30, 2011 and December 31, 2010 was \$3,444 for both periods and was related to capital losses of \$2,157 and Federal and state net operating losses of \$1,287 primarily due to Section 382 limitations. In assessing the realizability of deferred tax assets, management considers whether it is more-likely-than-not that some or all of the deferred tax assets will be realized.

Upon exercise of stock options, the Company recognizes any difference between U.S. GAAP compensation expense and income tax compensation expense as a tax windfall or shortfall. The difference is charged to equity in the case of a windfall. When the exercise results in a windfall and the windfall results in a net operating loss ("NOL"), or the windfall increases an NOL carryforward, no windfall is recognized until the deduction reduces the income tax payable. For U.S. GAAP purposes, the Company has deferred the recognition of approximately \$1,344 in windfall tax benefits associated with its stock-based compensation until a cash tax savings is realized. The benefit will be recorded in stockholder's equity when utilized on an income tax return to reduce taxes payable, and as such, it will not impact the Company's effective tax rate.

The total amount of the gross liability for unrecognized tax benefits reported in other non-current liabilities was \$816 and \$612 at September 30, 2011 and December 31, 2010, respectively. At September 30, 2011, the amount of unrecognized tax benefits that would benefit the Company's effective tax rate, if recognized, was \$605.

The Company recognizes potential interest and penalties related to unrecognized tax benefits in income tax expense. The Company had accrued interest and penalties of \$195 as of both September 30, 2011 and December 31, 2010.

The Company files a consolidated federal income tax return and separate tax returns with various states. Additionally, a subsidiary of the Company files a tax return in a foreign jurisdiction. The Company's tax returns for the calendar years ended December 31, 2010 and 2009, and fiscal years ended March 31, 2009 and 2008 remain open to examination by the Internal Revenue Service in their entirety. They also remain open with respect to state taxing jurisdictions.

## **11. Stock-Based Compensation**

### *Stock Options*

The Company has stock options and restricted stock outstanding under the 2004 Stock Incentive Plan (the "2004" Plan) and the 2010 Long-Term Incentive Plan (the "2010 Plan"). As of September 30, 2011, the maximum number of shares available for future issuance under the 2010 Plan is 2,419,785.

**Investnet, Inc.**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
(In thousands, except share and per share amounts)

Employee stock-based compensation expense was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Employee stock-based compensation expense	\$ 714	\$ 584	\$2,359	\$ 1,108
Tax effect on employee stock-based compensation expense	(261)	(221)	(920)	(419)
Net effect on income	<u>\$ 453</u>	<u>\$ 363</u>	<u>\$1,439</u>	<u>\$ 689</u>

The following weighted average assumptions were used to value options granted during the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Grant date fair value of options	\$ —	\$ 3.64	\$ 5.26	\$ 3.71
Volatility	—	37.5%	39.3%	37.5%
Risk-free interest rate	—	2.2%	2.5%	2.2%
Dividend yield	—	0.0%	0.0%	0.0%
Expected term (in years)	—	6.3	6.0	6.2

The following table summarizes option activity under the 2004 Plan and 2010 Plan:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2010	4,998,337	\$ 7.64		
Granted	437,333	12.59		
Exercised	(192,086)	5.58		
Forfeited	(5,267)	7.99		
Outstanding as of March 31, 2011	5,238,317	8.13	7.6	\$ 27,821
Granted	—	—		
Exercised	(177,865)	6.68		
Forfeited	(19,825)	8.69		
Outstanding as of June 30, 2011	5,040,627	8.18	7.3	33,631
Granted	—	—		
Exercised	(67,361)	6.55		
Forfeited	(145,494)	9.51		
Outstanding as of September 30, 2011	<u>4,827,772</u>	8.16	7.1	10,248
Options exercisable	<u>2,997,830</u>	7.13	5.9	8,759

Exercise prices of stock options outstanding as of September 30, 2011 range from \$1.10 to \$13.45.

**Investnet, Inc.**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
**(In thousands, except share and per share amounts)**

*Restricted Stock*

On February 28, 2011, the Company granted restricted stock awards to employees that vest one-third on each of the first three anniversaries of the grant date. The following is a summary of the activity for unvested restricted stock awards during the nine months ended September 30, 2011:

	Number of Shares	Weighted- Average Grant Date Fair Value per Share
Balance at December 31, 2010	—	\$ —
Granted	67,224	12.55
Vested	—	—
Forfeited	(3,119)	12.55
Balance at September 30, 2011	<u>64,105</u>	\$ 12.55

At September 30, 2011, there was \$6,951 of unrecognized compensation cost related to unvested stock options and restricted stock which the Company expects to recognize over a weighted-average period of 2.6 years.

**12. Earnings Per Share**

Net income per common share reflects the application of the two class method for 2010. Under the two class method, net income is allocated between common stock and other participating securities based on their respective participating rights. All classes of convertible preferred stock would participate pro rata in dividends and therefore are considered participating securities. Therefore, the two class method of calculating net income per common share has been applied. Basic net income per common share excludes dilution for potential common stock issuances and is computed by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted net income per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, unless they are anti-dilutive. For the calculation of diluted net income per common share, the basic weighted average number of shares is increased by the dilutive effective of stock options and warrants using the treasury stock method. For the nine months ended September 30, 2010, the convertible preferred securities are considered anti-dilutive as a result of such securities not having the contractual obligation to participate in losses of the Company.

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**Investnet, Inc.**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
(In thousands, except share and per share amounts)

The following table provides a reconciliation of the numerators and denominators used in computing basic and diluted net income attributable to common stockholders per common share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
<b>Basic income (loss) per share calculation:</b>				
Net income (loss)	\$ 1,925	\$ 625	\$ 5,776	\$ (1,493)
Less: Preferred stock dividends	—	(65)	—	(422)
Less: Net income allocated to participating preferred stock	—	(75)	—	—
Net income (loss) attributable to common stockholders	<u>\$ 1,925</u>	<u>\$ 485</u>	<u>\$ 5,776</u>	<u>\$ (1,915)</u>
Basic number of weighted-average shares outstanding	31,760,998	25,567,700	31,589,279	17,247,149
Basic net income (loss) per share attributable to common stockholders	<u>\$ 0.06</u>	<u>\$ 0.02</u>	<u>\$ 0.18</u>	<u>\$ (0.11)</u>
<b>Diluted income (loss) per share calculation:</b>				
Net income (loss) attributable to common stockholders	<u>\$ 1,925</u>	<u>\$ 485</u>	<u>\$ 5,776</u>	<u>\$ (1,915)</u>
Basic number of weighted-average shares outstanding	31,760,998	25,567,700	31,589,279	17,247,149
Effect of dilutive shares:				
Options to purchase common stock	919,465	768,393	1,052,340	—
Restricted stock	—	—	31,531	—
Common warrants	190,806	12,558	264,451	—
Diluted number of weighted-average shares outstanding	<u>32,871,269</u>	<u>26,348,651</u>	<u>32,937,601</u>	<u>17,247,149</u>
Diluted net income (loss) per share attributable to common stockholders	<u>\$ 0.06</u>	<u>\$ 0.02</u>	<u>\$ 0.18</u>	<u>\$ (0.11)</u>

Common share equivalents for securities that were anti-dilutive and therefore excluded from the computation of diluted earnings per share was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Options to purchase common stock	485,833	83,000	71,000	5,101,003
Restricted stock	64,105	—	—	—
Common warrants	—	—	—	1,388,888



**Investnet, Inc.**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
**(In thousands, except share and per share amounts)**

**13. Major Customers**

Two customers accounted for more than 10% of the Company's fees receivable:

	September 30, 2011	December 31, 2010
Customer A	39%	34%
Customer B	26%	26%

The Company has not established an allowance for doubtful accounts related to the receivables from these customers as of September 30, 2011 or December 31, 2010.

One customer accounted for more than 10% of the Company's revenues:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Customer A	<u>31%</u>	<u>31%</u>	<u>31%</u>	<u>32%</u>

**14. Insurance Recovery**

On April 26, 2011, the Company and its directors' and officers' liability insurance carrier entered into an agreement under which the insurance carrier agreed to pay the Company \$1,100 to reimburse the Company for defense fees and expenses incurred by the Company in 2010 related to certain litigation. This amount was received during the three months ended June 30, 2011 and is included in other income in the nine month period ended September 30, 2011.

**15. Commitments and Contingencies**

The Company is involved in litigation arising in the ordinary course of business. The Company does not believe that the outcome of any of the current litigation, individually or in the aggregate, would, if determined adversely to it, have a material adverse effect on its results of operations, financial condition, cash flows or business.

The Company rents office space under leases that expire at various dates through 2023. Future annual minimum lease commitments under these operating leases was as follows:

Years ending December 31:	
Remainder of 2011	\$ 774
2012	3,076
2013	3,370
2014	4,090
2015	3,962
Thereafter	<u>24,892</u>
	<u>\$40,164</u>

**Investnet, Inc.**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
**(In thousands, except share and per share amounts)**

**16. Acquisition**

On August 5, 2011, the Company entered into a stock purchase agreement (the "Agreement"), with BNP Paribas Investment Partners USA Holdings, Inc. ("BNPIP") to acquire all of the outstanding shares of FundQuest Incorporated ("FundQuest").

FundQuest provides managed account programs, overlay portfolio management, mutual funds, institutional asset management and investment consulting to registered investment advisors, independent advisors, broker-dealers, banks and trust organizations. The Boston-based firm had approximately \$15 billion in assets under management and administration as of June 30, 2011.

Under the terms of the Agreement, the Company will pay \$24,390 in cash for all of the outstanding shares of FundQuest, subject to certain post-closing adjustments. The Company will fund the acquisition price with available cash. The acquisition is subject to customary closing conditions, including third-party and client consents, and is expected to be completed during the fourth quarter of 2011. Upon closing, the existing platform services agreement between the Company and FundQuest will be terminated. FundQuest's assets are currently classified as assets under administration on the Company's platform. Upon closing of the acquisition, approximately \$6 billion of FundQuest's assets will be reclassified to assets under management for the Company.

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

*Unless otherwise indicated, the terms "Envestnet", the "Company", "we", "us" and "our" refer to Envestnet, Inc. and its subsidiaries.*

#### **Forward-Looking Statements**

*This quarterly report on Form 10-Q contains forward-looking statements regarding future events and our future results within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, in particular, statements about our plans, strategies and prospects under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations." These statements are based on our current expectations and projections about future events and are identified by terminology such as "anticipate," "believe," "continue," "could," "estimate," "expect," "expected," "intend," "will," "may," or "should" or the negative of those terms or other comparable terminology. Although we believe that our plans, intentions and expectations are reasonable, we may not achieve our plans, intentions or expectations.*

*These forward-looking statements involve risks and uncertainties. Important factors that could cause actual results to differ materially from the forward-looking statements we make in this quarterly report are set forth in our Annual Report on Form 10-K for the year ended December 31, 2010 (the "2010 Form 10-K") under "Risk Factors"; accordingly, investors should not place undue reliance upon our forward-looking statements. We undertake no obligation to update any of the forward-looking statements after the date of this quarterly report to conform those statements to reflect the occurrence of unanticipated events, except as required by applicable law.*

*You should read this quarterly report on Form 10-Q and our 2010 Form 10-K completely and with the understanding that our actual future results, levels of activity, performance and achievements may be different from what we expect and that these differences may be material. We qualify all of our forward-looking statements by these cautionary statements.*

*The following discussion and analysis should also be read along with our unaudited condensed consolidated financial statements and the related notes included elsewhere in this quarterly report and the audited consolidated financial statements and the related notes included in our 2010 Form 10-K. Except for the historical information contained herein, this discussion contains forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those discussed below.*

#### **Overview**

We are a leading provider of technology-enabled, wealth management solutions to financial advisors. By integrating a wide range of investment solutions and services, our technology platform provides financial advisors with the flexibility to address their clients' needs. We work with financial advisors who are independent, as well as those who are associated with small or mid-sized financial advisory firms and larger financial institutions, which we refer to as enterprise clients. We focus our technology development efforts and our sales and marketing approach on addressing financial advisors' front-, middle- and back-office needs. We believe our investment solutions and services allow financial advisors to be more efficient and effective in the activities critical to their businesses by facilitating client interactions, supporting and enhancing portfolio management and analysis, and enabling reliable account support and administration. In addition, we are not controlled by a financial institution, broker-dealer or other entity operating in the securities or wealth management industry, which we believe affords us a greater level of independence and impartiality.

#### **Operational Highlights**

Revenues from assets under management ("AUM") or assets under administration ("AUA") increased 37% from \$19.0 million in the three months ended September 30, 2010 to \$26.0 million in the three months ended September 30, 2011. Revenues from AUM or AUA increased 38% from \$54.1 million in the nine months ended September 30, 2010 to \$74.7 million in the nine months ended September 30, 2011. These increases were a result of the positive effects of new account growth and positive net flows of AUM or AUA, partially offset by a decrease in the market value of AUM or AUA.

Total revenues, which include licensing and professional service fees, increased 30% from \$24.6 million in the three months ended September 30, 2010 to \$32.0 million in the three months ended September 30, 2011. Total revenues increased 31% from \$70.4 million in the nine months ended September 30, 2010 to \$92.6 million in the nine months ended September 30, 2011.

Net income attributable to common stockholders for the three months ended September 30, 2011 was \$1.9 million, or \$0.6 per diluted share, compared to \$0.5 million, or \$0.02 per diluted share for the three months ended September 30, 2010.

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Net income attributable to common stockholders for the nine months ended September 30, 2011 was \$5.8 million, or \$0.18 per diluted share, compared to a net loss attributable to common stockholders of \$(1.9) million, or \$(0.11) per diluted share for the nine months ended September 30, 2010. The prior year nine-month period included a \$2.7 million pre-tax charge for the uncollectible portion of accounts and notes receivable and \$1.9 million in legal fees.

Adjusted EBITDA for the three months ended September 30, 2011 was \$7.6 million, an increase of 51% from \$5.0 million in the prior year period. Adjusted EBITDA for the nine months ended September 30, 2011 was \$20.9 million, an increase of 66% from \$12.6 million in the prior year nine month period.

Adjusted net income for the three months ended September 30, 2011 was \$3.7 million, or \$0.11 per diluted share, compared to adjusted net income of \$2.1 million, or \$0.07 per diluted share in the prior year period. Adjusted net income for the nine months ended September 30, 2011 was \$9.9 million, or \$0.30 per diluted share, compared to adjusted net income of \$5.1 million, or \$0.16 per diluted share in the prior year nine month period.

Adjusted EBITDA and Adjusted net income are non-GAAP financial measures. See “Non-GAAP Financial Measures” for a discussion on non-GAAP measures and a reconciliation of such measures to GAAP.

### ***Recent Event***

On August 5, 2011, we entered into a stock purchase agreement (the “Agreement”), with BNP Paribas Investment Partners USA Holdings, Inc. (“BNPIP”) to acquire all of the outstanding shares of FundQuest Incorporated (“FundQuest”).

FundQuest provides managed account programs, overlay portfolio management, mutual funds, institutional asset management and investment consulting to registered investment advisors, independent advisors, broker-dealers, banks and trust organizations. The Boston-based firm had approximately \$15 billion in assets under management and administration as of June 30, 2011.

Under the terms of the Agreement, we will pay approximately \$24.4 million in cash for all of the outstanding shares of FundQuest, subject to certain post-closing adjustments. We will fund the acquisition price with available cash. The acquisition is subject to customary closing conditions, including third-party and client consents, and is expected to be completed during the fourth quarter of 2011. Upon closing, the existing platform services agreement between us and FundQuest will be terminated. FundQuest’s assets are currently classified as assets under administration on our platform. Upon closing of the acquisition, approximately \$6 billion of FundQuest’s assets will be reclassified to assets under management on our platform.

### ***Key Operating Metrics***

The following table provides information regarding the amount of assets utilizing our platform, financial advisors and investor accounts in the periods indicated.

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	As of				
	September 30, 2010	December 31, 2010	March 31, 2011	June 30, 2011	September 30, 2011
(in millions except accounts and advisor data, unaudited)					
<b>Platform Assets</b>					
Assets Under Management (AUM)	\$ 12,352	\$ 14,486	\$ 15,635	\$ 16,493	\$ 15,560
Assets Under Administration (AUA)	46,655	49,202	53,115	54,261	50,607
Subtotal AUM/A	59,007	63,688	68,750	70,754	66,167
Licensing	67,343	75,668	83,538	68,531	61,571
<b>Total Platform Assets</b>	<b>\$ 126,350</b>	<b>\$ 139,356</b>	<b>\$152,288</b>	<b>\$139,285</b>	<b>\$ 127,738</b>
<b>Platform Accounts</b>					
AUM	56,094	65,663	71,396	77,302	83,073
AUA	229,154	241,162	252,260	254,995	254,100
Subtotal AUM/A	285,248	306,825	323,656	332,297	337,173
Licensing	574,903	603,950	601,512	572,612	572,791
<b>Total Platform Accounts</b>	<b>860,151</b>	<b>910,775</b>	<b>925,168</b>	<b>904,909</b>	<b>909,964</b>
<b>Advisors</b>					
AUM/A	13,011	13,833	14,140	14,613	14,206
Licensing	6,609	7,746	7,895	6,201	5,522
<b>Total Advisors</b>	<b>19,620</b>	<b>21,579</b>	<b>22,035</b>	<b>20,814</b>	<b>19,728</b>

The following table provides information regarding the degree to which gross sales, redemptions, net flows and changes in the market values of assets contributed to changes in AUM or AUA in the periods indicated.

	Asset Rollforward - Three Months Ended September 30, 2011					
	As of 6/30/11	Gross Sales	Redemp- tions	Net Flows	Market Impact	As of 9/30/11
(in millions except account data, unaudited)						
<b>Assets under Management (AUM)</b>	\$ 16,493	\$ 1,983	\$ (1,112)	\$ 871	\$(1,804)	\$ 15,560
<b>Assets under Administration (AUA)</b>	54,261	8,346	(7,258)	1,088	(4,742)	50,607
<b>Subtotal AUM/A</b>	<b>\$ 70,754</b>	<b>\$10,329</b>	<b>\$ (8,370)</b>	<b>\$1,959</b>	<b>\$(6,546)</b>	<b>\$ 66,167</b>
<i>Fee-Based Accounts</i>	332,297	44,073	(39,197)	4,876		337,173

Gross sales for the three months ended September 30, 2011 included \$4.5 billion in new client conversions. Also during the period, redemptions included \$3.4 billion related to the anticipated departure of reporting assets at a client that was acquired by another firm.

	Asset Rollforward - Nine Months Ended September 30, 2011					
	As of 12/31/10	Gross Sales	Redemp- tions	Net Flows	Market Impact	As of 9/30/11
(in millions except account data)						
<b>Assets under Management (AUM)</b>	\$ 14,486	\$ 5,821	\$ (3,539)	\$ 2,282	\$(1,208)	\$ 15,560
<b>Assets under Administration (AUA)</b>	49,202	19,542	(14,974)	4,568	(3,163)	50,607
<b>Subtotal AUM/A</b>	<b>\$ 63,688</b>	<b>\$ 25,363</b>	<b>\$(18,513)</b>	<b>\$ 6,850</b>	<b>\$(4,371)</b>	<b>\$ 66,167</b>
<i>Fee-Based Accounts</i>	306,825	103,304	(72,956)	30,348		337,173

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Gross sales for the nine months ended September 30, 2011 included \$6.3 billion in new client conversions. Also during the period, redemptions included \$3.4 billion related to the anticipated departure of reporting assets at a client that was acquired by another firm.

The mix of AUM and AUA was as follows for the periods indicated:

	September 30, 2010	December 31, 2010	March 31, 2011	June 30, 2011	September 30, 2011
Assets under management (AUM)	21%	23%	23%	23%	24%
Assets under administration (AUA)	79%	77%	77%	77%	76%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

## Results of Operations

Three months ended September 30, 2011 compared to three months ended September 30, 2010

	Three Months Ended September 30,		Increase (Decrease)	
	2011	2010	Amount	%
(In thousands, unaudited)				
<b>Revenues:</b>				
Assets under management or administration	\$ 25,971	\$ 19,001	\$ 6,970	37%
Licensing and professional services	6,069	5,569	500	9%
Total revenues	<u>32,040</u>	<u>24,570</u>	<u>7,470</u>	<u>30%</u>
<b>Operating expenses:</b>				
Cost of revenues	11,429	7,405	4,024	54%
Compensation and benefits	10,160	9,917	243	2%
General and administration	5,675	4,454	1,221	27%
Depreciation and amortization	1,550	1,451	99	7%
Restructuring charges	—	96	(96)	-100%
Total operating expenses	<u>28,814</u>	<u>23,323</u>	<u>5,491</u>	<u>24%</u>
Income from operations	<u>3,226</u>	<u>1,247</u>	<u>1,979</u>	<u>159%</u>
<b>Other income (expense):</b>				
Interest income	19	34	(15)	-44%
Interest expense	(206)	(193)	(13)	7%
Unrealized gain (loss) on investments	(8)	7	(15)	-214%
Total other (expense)	<u>(195)</u>	<u>(152)</u>	<u>(43)</u>	<u>28%</u>
Income before income tax provision	3,031	1,095	1,936	177%
Income tax provision	1,106	470	636	135%
Net income	<u>\$ 1,925</u>	<u>\$ 625</u>	<u>\$ 1,300</u>	<u>208%</u>

### Revenues

Total revenues increased 30% from \$24.6 million in the three months ended September 30, 2010 to \$32.0 million in the three months ended September 30, 2011. The increase was primarily due to an increase in revenues from AUM or AUA of \$7.0 million. Revenues from assets under management or administration were 81% and 77% of total revenues in the three months ended September 30, 2011 and 2010, respectively.

### Assets under management or administration

Revenues earned from AUM or AUA increased 37% from \$19.0 million in the three months ended September 30, 2010 to \$26.0 million in the three months ended September 30, 2011. The increase was primarily due to an increase in asset values applicable to our quarterly billing cycle in 2011, relative to the corresponding period in 2010. In the third quarter of 2011, revenues were positively affected by new account growth and positive net flows of AUM or AUA during the first three quarters of 2011, offset by a decrease in the market value of AUM or AUA as of September 30, 2011.

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New account growth and positive net flows of AUM or AUA resulted from continued efforts to increase the number of financial advisors and accounts on our technology platform. The number of financial advisors with AUM or AUA that had client accounts on our technology platform increased from 13,011 as of September 30, 2010 to 14,206 as of September 30, 2011 and the number of AUM or AUA client accounts increased from approximately 285,000 as of September 30, 2010 to approximately 337,000 as of September 30, 2011.

### ***Licensing and professional services***

Licensing and professional services revenues increased 9% from \$5.6 million in the three months ended September 30, 2010 to \$6.1 million in the three months ended September 30, 2011, primarily due to an increase in licensing revenue of \$0.2 million and an increase in professional services revenue of \$0.3 million.

### ***Cost of revenues***

Cost of revenues increased 54% from \$7.4 million in the three months ended September 30, 2010 to \$11.4 million in the three months ended September 30, 2011, primarily due to a corresponding increase in revenues from AUM or AUA. As a percentage of total revenues, cost of revenues increased from 30% in the three months ended September 30, 2010 to 36% in the three months ended September 30, 2011.

### ***Compensation and benefits***

Compensation and benefits increased 2% from \$9.9 million in the three months ended September 30, 2010 to \$10.2 million in the three months ended September 30, 2011, primarily due to an increase in salaries and commissions of \$0.3 million related to an increase in headcount, an increase in benefits and taxes of \$0.3 million, and an increase in non-cash stock based compensation expense of \$0.1 million, offset by a decrease in incentive compensation expense of \$0.3 million. As a percentage of total revenues, compensation and benefits decreased from 40% in the three months ended September 30, 2010 to 32% in the three months ended September 30, 2011.

### ***General and administration***

General and administration expenses increased 27% from \$4.5 million in the three months ended September 30, 2010 to \$5.7 million in the three months ended September 30, 2011, primarily due to increases in occupancy costs of \$0.2 million, communication, research and data services expense of \$0.2 million, transaction costs of \$0.2 million, the impairment of a customer inducement asset of \$0.2 million, professional and other legal fees of \$0.1 million and an increase in marketing costs of \$0.1 million. As a percentage of total revenues, general and administration expenses remained flat at 18% in both periods.

### ***Depreciation and amortization***

Depreciation and amortization expense increased 7% from \$1.5 million in the three months ended September 30, 2010 to \$1.6 million in the three months ended September 30, 2011, primarily due to an increase in fixed asset depreciation and amortization of \$0.3 million offset by a decrease in intangible asset amortization of \$0.2 million. The increase in fixed asset depreciation and amortization expense was primarily due to increases in computer equipment and software to support the growth of our operations. As a percentage of total revenues, depreciation and amortization expense decreased from 6% in the three months ended September 30, 2010 to 5% in the three months ended September 30, 2011.

### ***Restructuring charges***

Effective March 31, 2010, we closed our Los Angeles office in order to more appropriately align and manage our resources and incurred restructuring charges of approximately \$0.1 million in the three months ended September 30, 2010. The expenses incurred in 2010 primarily relate to relocation expenses and bonuses. There were no restructuring charges in the three months ended September 30, 2011.

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*Income tax provision*

	Three Months Ended September 30,	
	2011	2010
	(in thousands, unaudited)	
Income tax provision	\$ 1,106	\$ 470
Effective tax rate	36.5%	42.9%

For the three months ended September 30, 2011 and September 30, 2010, our effective tax rate differs from the statutory rate primarily due to the effect of state taxes and permanent differences.



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### Results of Operations

Nine months ended September 30, 2011 compared to nine months ended September 30, 2010

	Nine Months Ended September 30,		Increase (Decrease)	
	2011	2010	Amount	%
(In thousands, unaudited)				
<b>Revenues:</b>				
Assets under management or administration	\$ 74,669	\$ 54,112	\$ 20,557	38%
Licensing and professional services	17,967	16,337	1,630	10%
Total revenues	92,636	70,449	22,187	31%
<b>Operating expenses:</b>				
Cost of revenues	32,474	22,123	10,351	47%
Compensation and benefits	30,693	27,190	3,503	13%
General and administration	15,809	16,645	(836)	-5%
Depreciation and amortization	4,676	4,210	466	11%
Restructuring charges	53	915	(862)	-94%
Total operating expenses	83,705	71,083	12,622	18%
Income (loss) from operations	8,931	(634)	9,565	*
<b>Other income (expense):</b>				
Interest income	65	119	(54)	-45%
Interest expense	(621)	(321)	(300)	93%
Other income	1,100	—	1,100	100%
Unrealized gain on investments	(4)	7	(11)	-157%
Total other (expense)	540	(195)	735	*
Income (loss) before income tax provision	9,471	(829)	10,300	*
Income tax provision	3,695	664	3,031	*
Net income (loss)	\$ 5,776	\$ (1,493)	\$ 7,269	*

\* Not meaningful.

#### Revenues

Total revenues increased 31% from \$70.4 million in the nine months ended September 30, 2010 to \$92.6 million in the nine months ended September 30, 2011. The increase was primarily due to an increase in revenues from AUM or AUA of \$20.6 million. Revenues from AUM and AUA were 81% and 77% of total revenues in the nine months ended September 30, 2011 and 2010, respectively.

#### Assets under management or administration

Revenues earned from AUM or AUA increased 38% from \$54.1 million in the nine months ended September 30, 2010 to \$74.7 million in the nine months ended September 30, 2011. The increase was primarily due to an increase in asset values applicable to our quarterly billing cycles in 2011, relative to the corresponding periods in 2010. In the nine months ended September 30, 2011, revenues were positively affected by new account growth and positive net flows of AUM or AUA during the first nine months of 2011, offset by a decrease in the market value of AUM or AUA as of September 30, 2011.

New account growth and positive net flows of AUM or AUA resulted from continued efforts to increase the number of financial advisors and accounts on our technology platform. The number of financial advisors with AUM or AUA that had client accounts on our technology platform increased from 13,011 as of September 30, 2010 to 14,206 as of September 30, 2011 and the number of AUM or AUA client accounts increased from approximately 285,000 as of September 30, 2010 to approximately 337,000 as of September 30, 2011.

#### Licensing and professional services

Licensing and professional services revenues increased 10% from \$16.3 million in the nine months ended September 30, 2010 to \$18.0 million in the nine months ended September 30, 2011. This increase was primarily due to an increase in licensing revenue of \$0.8 million and an increase in professional services revenue of \$0.8 million.

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### ***Cost of revenues***

Cost of revenues increased 47% from \$22.1 million in the nine months ended September 30, 2010 to \$32.5 million in the nine months ended September 30, 2011, primarily due to the corresponding increase in revenues from AUM or AUA. As a percentage of total revenues, cost of revenues increased from 31% in the nine months ended September 30, 2010 to 35% in the nine months ended September 30, 2011.

### ***Compensation and benefits***

Compensation and benefits increased 13% from \$27.2 million in the nine months ended September 30, 2010 to \$30.7 million in the nine months ended September 30, 2011, primarily due to an increase in salaries and commissions of \$1.8 million related to an increase in headcount, an increase in non-cash stock based compensation expense of \$1.3 million and an increase in benefits and taxes of \$0.8 million. Headcount increased from an average of 432 in the nine months ended September 30, 2010 to an average of 477 in the nine months ended September 30, 2011, primarily to support the growth of our operations, and hiring of former FundQuest and B-Ready employees. As a percentage of total revenues, compensation and benefits decreased from 39% in the nine months ended September 30, 2010 to 33% in the nine months ended September 30, 2011.

### ***General and administration***

General and administration expenses decreased 5% from \$16.6 million in the nine months ended September 30, 2010 to \$15.8 million in the nine months ended September 30, 2011, primarily due to a decrease of \$2.7 million in bad debt expense related to the uncollectible portion of accounts and notes receivable and a decrease of \$1.8 million in legal fees, offset by increases in communication, research and data services expense of \$0.7 million, marketing costs of \$0.5 million, insurance and bank charges of \$0.4 million and professional and other legal fees of \$0.5 million. As a percentage of total revenues, general and administration expenses decreased from 24% in the nine months ended September 30, 2010 to 17% in the nine months ended September 30, 2011. Excluding bad debts expense of \$2.7 million and legal fees of \$1.8 million, general and administration expenses as a percentage of total revenues would have been 17% in the nine months ended September 30, 2010.

### ***Depreciation and amortization***

Depreciation and amortization expense increased 11% from \$4.2 million in the nine months ended September 30, 2010 to \$4.7 million in the nine months ended September 30, 2011, primarily due to an increase in fixed asset depreciation and amortization of \$0.7 million offset by a decrease in intangible asset amortization of \$0.2 million. The increase in fixed asset depreciation and amortization expense was primarily due to increases in computer equipment and software to support the growth of our operations. As a percentage of total revenues, depreciation and amortization decreased from 6% in the nine months ended September 30, 2010 to 5% in the nine months ended September 30, 2011.

### ***Restructuring charges***

Effective March 31, 2010, we closed our Los Angeles office in order to more appropriately align and manage our resources and incurred restructuring charges of approximately \$0.1 million and \$0.9 million in the nine months ended September 30, 2011 and 2010, respectively. The expenses incurred in 2011 primarily relate to relocation expenses. The expenses incurred in 2010 primarily relate to vacating rental office space, relocation expenses and severance charges. We expect our subsequent 2011 expenses related to the closure of our Los Angeles office will not be significant.

### ***Interest expense***

Interest expense increased from \$0.3 million in the nine months ended September 30, 2010 to \$0.6 million in the nine months ended September 30, 2011, primarily due to nine months of imputed interest on payments due to FundQuest in the nine month period ended September 30, 2011 compared to five months of imputed interest in the prior year period.

### ***Other income***

Other income increased from zero in the nine months ended September 30, 2010 to \$1.1 million in the nine months ended September 30, 2011, due to the proceeds from an insurance recovery (See note 14 to the notes to the unaudited condensed consolidated financial statements).

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### Income tax provision

	Nine Months Ended September 30,	
	2011	2010
	(in thousands, unaudited)	
Income tax provision	\$ 3,695	\$ 664
Effective tax rate	39.0%	*

\* Not meaningful.

Our effective tax rate for the nine months ended September 30, 2011 differs from the statutory rate primarily due to the effect of state taxes and permanent differences.

Our effective tax rate for the nine months ended September 30, 2010 differs from the statutory rate primarily as a result of the establishment of a full income tax valuation allowance of the deferred tax asset created as a result of the write-off of notes receivable from Fetter Logic that is considered a capital loss for income tax purposes, as well as the effect of state taxes and permanent differences.

### Non GAAP Financial Measures

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in thousands, unaudited)			
Adjusted EBITDA	\$ 7,567	\$ 5,018	\$20,913	\$12,568
Adjusted operating income	6,017	3,567	16,237	8,358
Adjusted net income	3,715	2,126	9,851	5,143
Adjusted net income per share	0.11	0.07	0.30	0.16

“Adjusted EBITDA” represents net income (loss) before interest income, interest expense, net income tax provision (benefit), depreciation and amortization, non-cash stock-based compensation expense, unrealized gain (loss) on investments, other income, restructuring charges and transaction costs, severance, bad debt expense, customer inducement costs and impairment, and litigation related expense.

“Adjusted operating income” represents income (loss) from operations before non-cash stock-based compensation expense, restructuring charges and transaction costs, severance, bad debt expense, customer inducement costs and impairment, and litigation related expense.

“Adjusted net income” represents net income (loss) before non-cash stock-based compensation expense, restructuring charges and transaction costs, severance, bad debt expense, customer inducement costs and impairment, other income, imputed interest expense and litigation related expense. Reconciling items are tax effected using the income tax rates in effect on the applicable date.

“Adjusted net income per share” represents adjusted net income attributable to common stockholders divided by the diluted number of weighted-average shares outstanding.

The Compensation Committee of our Board of Directors and our management use adjusted EBITDA, adjusted operating income, adjusted net income and adjusted net income per share:

- as measures of operating performance;
- for planning purposes, including the preparation of annual budgets;
- to allocate resources to enhance the financial performance of our business;
- to evaluate the effectiveness of our business strategies; and
- in communications with our Board of Directors concerning our financial performance.

Our Compensation Committee and our management may also consider adjusted EBITDA, among other factors, when determining management’s incentive compensation.

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We also present adjusted EBITDA, adjusted operating income, adjusted net income and adjusted net income per share as supplemental performance measures because we believe that they provide our Board of Directors, management and investors with additional information to assess our performance. Adjusted EBITDA provides comparisons from period to period by excluding potential differences caused by variations in the age and book depreciation of fixed assets affecting relative depreciation expense and amortization of internally developed software, amortization of customer inducement costs, impairment of investments, impairment of goodwill, litigation-related expense, bad debt expense, severance, unrealized income (loss) on investments, other income, and changes in interest expense and interest income that are influenced by capital structure decisions and capital market conditions. Our management also believes it is useful to exclude non-cash stock-based compensation expense from adjusted EBITDA, adjusted operating income and adjusted net income because non-cash equity grants made at a certain price and point in time do not necessarily reflect how our business is performing at any particular time.

We believe adjusted EBITDA, adjusted operating income, adjusted net income and adjusted net income per share are useful to investors in evaluating our operating performance because securities analysts use adjusted EBITDA, adjusted operating income, adjusted net income and adjusted net income per share as supplemental measures to evaluate the overall performance of companies, and we anticipate that our investor and analyst presentations will include adjusted EBITDA, adjusted operating income, adjusted net income and adjusted net income per share.

Adjusted EBITDA, adjusted operating income, adjusted net income and adjusted net income per share are not measurements of our financial performance under U.S. GAAP and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with U.S. GAAP, or as an alternative to cash flows from operating activities as a measure of our profitability or liquidity.

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

- Adjusted EBITDA, adjusted operating income, adjusted net income and adjusted net income per share do not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA, adjusted operating income, adjusted net income and adjusted net income per share do not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA, adjusted operating income, adjusted net income and adjusted net income per share do not reflect non-cash components of employee compensation;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized often will have to be replaced in the future, and adjusted EBITDA does not reflect any cash requirements for such replacements;
- Due to either net losses before income tax expenses or the use of federal and state net operating loss carryforwards in 2011 and 2010 we had cash income tax payments of \$0.7 million and \$0.1 million in the nine months ended September 30, 2011 and 2010, respectively. Income tax payments will be higher if we continue to generate taxable income and our existing net operating loss carryforwards for federal and state income taxes have been fully utilized or have expired; and
- Other companies in our industry may calculate adjusted EBITDA, adjusted operating income, adjusted net income and adjusted net income per share differently than we do, limiting their usefulness as a comparative measure.

Management compensates for the inherent limitations associated with using adjusted EBITDA, adjusted operating income, adjusted net income and adjusted net income per share through disclosure of such limitations, presentation of our financial statements in accordance with U.S. GAAP and reconciliation of adjusted EBITDA, adjusted net income and adjusted net income per share to net income and net income per share, the most directly comparable U.S. GAAP measure, and adjusted operating income to income from operations, the most directly comparable U.S. GAAP measure. Further, our management also reviews U.S. GAAP measures and evaluates individual measures that are not included in some or all of our non-U.S. GAAP financial measures, such as our level of capital expenditures and interest income, among other measures.

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The following table sets forth a reconciliation of net income (loss) to adjusted EBITDA based on our historical results:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in thousands, unaudited)			
Net income (loss)	\$ 1,925	\$ 625	\$ 5,776	\$ (1,493)
Add (deduct):				
Interest income	(19)	(34)	(65)	(119)
Interest expense	206	193	621	321
Income tax provision	1,106	470	3,695	664
Depreciation and amortization	1,550	1,451	4,676	4,210
Stock-based compensation expense	714	584	2,359	1,108
Unrealized (gain) loss on investments	8	(7)	4	(7)
Other income	—	—	(1,100)	—
Restructuring charges (excluding severance) and transaction costs	302	96	365	819
Severance	370	409	673	533
Impairment of customer inducement asset	174	—	174	—
Bad debt expense	—	—	—	2,668
Customer inducement costs	1,207	1,146	3,620	1,931
Litigation related expense	24	85	115	1,933
Adjusted EBITDA	<u>\$ 7,567</u>	<u>\$ 5,018</u>	<u>\$20,913</u>	<u>\$12,568</u>

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The following table sets forth the reconciliation of income (loss) from operations to adjusted operating income based on our historical results:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in thousands, unaudited)			
Income (loss) from operations	\$ 3,226	\$ 1,247	\$ 8,931	\$ (634)
Add:				
Stock-based compensation expense	714	584	2,359	1,108
Restructuring charges (excluding severance) and transaction costs	302	96	365	819
Severance	370	409	673	533
Impairment of customer inducement asset	174	—	174	—
Bad debt expense	—	—	—	2,668
Customer inducement costs	1,207	1,146	3,620	1,931
Litigation related expense	24	85	115	1,933
Adjusted operating income	<u>\$ 6,017</u>	<u>\$ 3,567</u>	<u>\$ 16,237</u>	<u>\$ 8,358</u>

The following table sets forth the reconciliation of net income (loss) to adjusted net income and adjusted net income per share based on our historical results:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011 *	2010 *	2011 *	2010 *
	(in thousands, unaudited)			
Net income (loss)	\$ 1,925	\$ 625	\$ 5,776	\$ (1,493)
Add (deduct):				
Stock-based compensation expense	427	350	1,411	663
Restructuring charges (excluding severance) and transaction costs	181	58	218	490
Severance	221	245	402	319
Impairment of customer inducement asset	104	—	104	—
Bad debt expense	—	—	—	2,668
Customer inducement costs	722	686	2,165	1,155
Other income	—	—	(658)	—
Imputed interest expense	121	111	364	185
Litigation related expense	14	51	69	1,156
Adjusted net income	<u>3,715</u>	<u>2,126</u>	<u>9,851</u>	<u>5,143</u>
Less: Preferred stock dividends	—	(65)	—	(422)
Less: Net income allocated to participating preferred stock	—	(276)	—	(1,718)
Adjusted net income attributable to common stockholders	<u>\$ 3,715</u>	<u>\$ 1,785</u>	<u>\$ 9,851</u>	<u>\$ 3,003</u>
Basic number of weighted-average shares outstanding	31,760,998	25,567,700	31,589,279	17,247,149
Effect of dilutive shares:				
Options to purchase common stock	919,465	768,393	1,052,340	921,838
Restricted stock	—	—	31,531	—
Common warrants	190,806	12,558	264,451	119,511
Diluted number of weighted-average shares outstanding	<u>32,871,269</u>	<u>26,348,651</u>	<u>32,937,601</u>	<u>18,288,498</u>
Adjusted net income per share	<u>\$ 0.11</u>	<u>\$ 0.07</u>	<u>\$ 0.30</u>	<u>\$ 0.16</u>

\* Adjustments, excluding bad debt expense, are tax effected using an income tax rate of 40.2% for 2011 and 2010.

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### **Liquidity and Capital Resources**

As of September 30, 2011, we had total cash and cash equivalents of \$83.6 million compared to \$67.7 million as of December 31, 2010. We believe that our current level of cash generation, together with our existing current assets will adequately support our operations and capital expenditures over the next 12 months.

### **Cash Flows**

The following table presents information regarding our cash flows and cash and cash equivalents for the periods indicated:

	Nine Months Ended	
	September 30,	
	2011	2010
	(In thousands, unaudited)	
Net cash provided by (used in) operating activities	\$ 18,808	\$ (3,981)
Net cash used in investing activities	(5,531)	(4,336)
Net cash provided by financing activities	2,608	40,357
Net increase in cash and cash equivalents	15,885	32,040
Cash and cash equivalents, end of period	83,553	63,565

### **Operating Activities**

Net cash provided by operating activities for the nine months ended September 30, 2011 increased by \$22.8 million compared to the same period in 2010, primarily due to an increase in net earnings of \$7.3 million from the nine months ended September 30, 2011 compared to the prior year period and a decrease in customer inducement liability payments of \$9.3 million, primarily a result of a \$1.0 million payment to FundQuest in the nine months ended September 30, 2011 compared to a payment of \$10.3 million payment to FundQuest in the nine months ended September 30, 2010.

### **Investing Activities**

Net cash used in investing activities for the nine months ended September 30, 2011 increased by \$1.2 million compared to the same period in 2010. Cash disbursements in 2011 and 2010 totaled \$5.4 million and \$4.3 million, respectively, for purchases of property and equipment and capitalization of internally developed software.

### **Financing Activities**

Net cash provided by financing activities for the nine months ended September 30, 2011 decreased by \$37.7 million compared to the same period in 2010, primarily due to the receipt of net proceeds of \$42.1 million from our initial public offering after deducting underwriting discounts and offering costs in 2010.

### **Critical Accounting Estimates**

There have been no changes in the matters for which we make critical accounting estimates in the preparation of our unaudited condensed consolidated financial statements during the three and nine months ended September 30, 2011, as compared to those disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2010 included in our 2010 Form 10-K.

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### Commitments

The following table sets forth information regarding our contractual obligations as of September 30, 2011:

	Payments Due by Period				
	Total	Remaining in 2011	1-3 years	3-5 years	More than 5 years
	(In thousands)				
Operating leases (1)	\$40,164	\$ 774	\$6,446	\$ 8,052	\$ 24,892
Customer inducement payments (2)	22,273	—	2,000	2,000	18,273
Note payable	150	—	150	—	—
Total	<u>\$62,587</u>	<u>\$ 774</u>	<u>\$8,596</u>	<u>\$10,052</u>	<u>\$ 43,165</u>

(1) We lease facilities under non-cancelable operating leases expiring at various dates through 2023.

(2) On August 5, 2011, we entered into an Agreement with BNPIP to acquire all of the outstanding shares of FundQuest for \$24.4 million. In connection with this Agreement and upon closing of this transaction in the fourth quarter of 2011, the existing platform services agreement will be terminated and as a result, these future payments will no longer be required.

The table above does not reflect the following:

- Amounts estimated for uncertain tax positions since the timing and likelihood of such payments cannot be reasonably estimated.
- Voluntary employer matching contributions to our defined contribution benefit plan since the amount cannot be reasonably estimated. For each of the years ending December 31, 2010, 2009 and 2008, we made voluntary employer matching contributions of \$0.4 million.

### Off-Balance Sheet Arrangements

Other than operating leases noted above, we do not have any off-balance sheet arrangements.

### Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (“FASB”) issued authoritative guidance that enables vendors to account for products or services sold to customers (deliverables) separately rather than as a combined unit, as was generally required by past guidance. The revised guidance provides for two significant changes to the existing multiple element revenue arrangement guidance. The first change relates to the determination of when individual deliverables included in a multiple element arrangement may be treated as separate units of accounting. The second change modifies the manner in which the transaction consideration is allocated across the separately identified deliverables. This guidance also significantly expands the disclosures required for multiple-element revenue arrangements. The guidance is required to be adopted in fiscal years beginning on or after June 15, 2010, but early adoption is permitted. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In October 2009, the FASB issued authoritative guidance that changes the accounting model for revenue arrangements that include both tangible products and software elements so that tangible products containing software components and nonsoftware components that function together to deliver the tangible product’s essential functionality are no longer within the scope of the software revenue guidance in Accounting Standards Codification (“ASC”) Subtopic 985-605. In addition, this guidance requires hardware components of a tangible product containing software components always be excluded from the software revenue guidance. The guidance is required to be adopted in fiscal years beginning on or after June 15, 2010, but early adoption is permitted. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In June 2011, the FASB issued new guidance that amends current comprehensive income guidance. The new guidance eliminates the option to present the components of other comprehensive income as part of the statement of shareholders’ equity. Instead, we must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. Additionally, the guidance requires an entity to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. The new guidance will be effective January 1, 2012. The adoption of the new guidance will not have a material impact on our consolidated financial statements.



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In September 2011, the FASB issued authoritative guidance in ASC 350 "Intangibles - Goodwill and other" intended to simplify goodwill impairment testing. Entities will be allowed to perform a qualitative assessment on goodwill impairment to determine whether it is more likely than not (a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. This guidance is effective for goodwill impairment tests performed in interim and annual periods for fiscal years beginning after December 15, 2011. The adoption of the new guidance will not have a material impact on the Company's consolidated financial statements.

### **Item 3. Qualitative and Qualitative Disclosures About Market Risk**

#### ***Market risk***

Our exposure to market risk is directly related to revenues from asset management or administration services earned based upon a contractual percentage of AUM or AUA. In the three and nine months ended September 30, 2011, 81% of our revenues were derived from revenues based on the market value of AUM or AUA. We expect this percentage to vary over time. A decrease in the aggregate value of AUM or AUA may cause our revenue and income to decline.

#### ***Foreign currency risk***

The expenses of our India subsidiary, which primarily consist of expenditures related to compensation and benefits, are paid using the Indian Rupee. We are directly exposed to changes in foreign currency exchange rates through the translation of these monthly expenditures into U.S. dollars. For the three and nine months ended September 30, 2011, we estimate that a hypothetical 10% increase in the value of the Indian Rupee to the U.S. dollar would result in a decrease of \$0.1 million and \$0.3 million to pre-tax earnings, respectively and a hypothetical 10% decrease in the value of the Indian Rupee to the U.S. dollar would result in an increase of \$0.1 million and \$0.3 million to pre-tax earnings, respectively.

#### ***Interest rate risk***

We have no floating interest rate debt and therefore we are not directly exposed to interest rate risk.

### **Item 4. Controls and Procedures**

#### ***Evaluation of Disclosure Controls and Procedures***

We maintain "disclosure controls and procedures", as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 ("the Exchange Act"), that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is communicated to our management, including our principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, but not absolute, assurance that the objectives of the disclosure controls and procedures are met. Our disclosure controls and procedures have been designed to meet the reasonable assurance standards. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their evaluation, our principal executive officer and our principal financial officer concluded that as of September 30, 2011, our disclosure controls and procedures were effective.

#### ***Changes in Internal Control Over Financial Reporting***

There were no changes in internal control over financial reporting during the quarter ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PAR T II — OTHER INFORMATION**

**Item 1. Legal Proceedings**

We are involved in litigation arising in the ordinary course of our business. We do not believe that the outcome of any of the current litigation, individually or in the aggregate, would, if determined adversely to us, have a material adverse effect on our results of operations, financial condition or business.

**Item 1A. Risk Factors**

Investment in our securities involves risk. An investor or potential investor should consider the risks summarized under the caption “Risk Factors” in Part I, Item 1A of our 2010 Form 10-K filed, when making investment decisions regarding our securities. The risk factors that were disclosed in our 2010 Form 10-K have not materially changed since the date our 2010 Form 10-K.

**Item 2. Unregistered Sales of Equity Securities**

*Unregistered Sales of Equity Securities*

None.

**(c) Issuer Purchases of Equity Securities**

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 5. Other Information.**

None.

**Item 6. Exhibits**

*(a) Exhibits*

See the exhibit index, which is incorporated herein by reference.



INDEX TO EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 <sup>(1)</sup>	Certification of Chief Executive Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2 <sup>(1)</sup>	Certification of Chief Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document *
101.SCH	XBRL Taxonomy Extension Schema Document *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document *
101.LAB	XBRL Taxonomy Extension Label Linkbase Document *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document *
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document *

<sup>(1)</sup> The material contained in Exhibit 32.1 and 32.2 is not deemed "filed" with the SEC and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language contained in such filing, except to the extent that the registrant specifically incorporates it by reference.

\* Attached as Exhibit 101 to this Quarterly Report on Form 10-Q are the following materials, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010; (ii) the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2011 and 2010; (iii) the Condensed Consolidated Statements of Stockholders' Equity for the nine months ended September 30, 2011; (iv) the Condensed Consolidated Statements of Cash Flow for the nine months ended September 30, 2011 and 2010; (v) Notes to the Condensed Consolidated Financial Statements tagged as blocks of text.

The XBRL related information in this Quarterly Report on Form 10-Q, Exhibit 101, is not deemed "filed" for purposes of Section 11 or 12 of the Securities Act of 1933, as amended (the Securities Act), or Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or otherwise subject to the liabilities of those sections, and is not part of any registration statement to which it may relate, and is not incorporated by reference into any registration statement or other document filed under the Securities Act or the Exchange Act, except as is expressly set forth by specific reference in such filing or document.

**Exhibit 31.1**

**CHIEF EXECUTIVE OFFICER CERTIFICATION**

I, Judson Bergman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended September 30, 2011, of Envestnet Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2011

/s/ JUDSON BERGMAN

Judson Bergman  
*Chairman and Chief Executive Officer*  
*(Principal Executive Officer)*

**Exhibit 31.2**

**CHIEF FINANCIAL OFFICER CERTIFICATION**

I, Peter D'Arrigo, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended September 30, 2011, of Envestnet Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2011

/s/ PETER D'ARRIGO

Peter D'Arrigo  
Chief Financial Officer  
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Envestnet, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Judson Bergman, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

*/s/ Judson Bergman*

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By: Judson Bergman  
Chairman and Chief Executive Officer  
*(Principal Executive Officer)*

Dated: November 9, 2011

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Envestnet, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Peter D'Arrigo, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

*/s/ Peter D'Arrigo*

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By: Peter D'Arrigo  
Chief Financial Officer  
*(Principal Financial Officer)*

Dated: November 9, 2011

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.