

ENVESTNET, INC.
Form 10-Q
November 08, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

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

Commission file number 001-34835

Envestnet, Inc.

(Exact name of registrant as specified in its charter)

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Delaware (State or other jurisdiction of incorporation or organization)	20-1409613 (I.R.S Employer Identification No.)
35 East Wacker Drive, Suite 2400, Chicago, IL (Address of principal executive offices)	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 <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

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, 2012, 32,338,021 shares of the common stock with a par value of \$0.005 per share were outstanding.

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Table of Contents**Investnet, Inc.****Condensed Consolidated Balance Sheets****(In thousands, except share information)****(Unaudited)**

	September 30, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 21,133	\$ 64,909
Fees receivable	10,692	9,644
Deferred tax assets, net	611	192
Prepaid expenses and other current assets	2,936	4,040
Total current assets	35,372	78,785
Property and equipment, net	12,294	11,091
Internally developed software, net	4,053	3,524
Intangible assets, net	28,910	12,225
Goodwill	66,152	22,223
Deferred tax assets, net	7,187	6,692
Other non-current assets	3,544	3,162
Total assets	\$ 157,512	\$ 137,702
Liabilities and Stockholders Equity		
Current liabilities:		
Accrued expenses	\$ 18,892	\$ 14,919
Accounts payable	2,519	1,974
Note payable		171
Deferred revenue	5,340	79
Total current liabilities	26,751	17,143
Deferred rent liability	2,038	1,414
Lease incentive liability	4,020	2,933
Other non-current liabilities	752	573
Total liabilities	33,561	22,063
Commitments and contingencies		
Stockholders equity		
Preferred stock		
Common stock, par value \$0.005, 500,000,000 shares authorized as of September 30, 2012 and December 31, 2011 respectively; 44,049,285 and 43,515,899 shares issued as of September 30, 2012 and December 31, 2011, respectively; 32,334,451 and 31,810,726 shares outstanding as of September 30, 2012 and December 31, 2011, respectively	220	218
Treasury stock at cost, 11,714,834 and 11,705,173 shares as of September 30, 2012 and December 31, 2011, respectively	(10,543)	(10,421)
Additional paid-in capital	171,393	163,584

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Accumulated deficit	(37,119)	(37,742)
Total stockholders' equity	123,951	115,639
Total liabilities and stockholders' equity	\$ 157,512	\$ 137,702

See accompanying notes to unaudited Condensed Consolidated Financial Statements.

Table of Contents**Investnet, 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,	
	2012	2011	2012	2011
Revenues:				
Assets under management or administration	\$ 33,223	\$ 25,971	\$ 92,498	\$ 74,669
Licensing and professional services	9,060	6,069	20,389	17,967
Total revenues	42,283	32,040	112,887	92,636
Operating expenses:				
Cost of revenues	15,088	11,429	40,163	32,474
Compensation and benefits	15,261	10,160	40,031	30,693
General and administration	7,621	5,675	22,542	15,809
Depreciation and amortization	3,393	1,550	9,016	4,676
Restructuring charges			115	53
Total operating expenses	41,363	28,814	111,867	83,705
Income from operations	920	3,226	1,020	8,931
Other income (expense):				
Interest income	3	19	26	65
Interest expense		(206)	(3)	(621)
Other income				1,100
Loss on investments		(8)		(4)
Total other income (expense)	3	(195)	23	540
Income before income tax provision	923	3,031	1,043	9,471
Income tax provision	372	1,106	420	3,695
Net income	\$ 551	\$ 1,925	\$ 623	\$ 5,776
Net income per share:				
Basic	\$ 0.02	\$ 0.06	\$ 0.02	\$ 0.18
Diluted	\$ 0.02	\$ 0.06	\$ 0.02	\$ 0.18
Weighted average common shares outstanding:				
Basic	32,296,636	31,760,998	32,102,386	31,589,279
Diluted	33,358,706	32,871,269	33,179,044	32,937,601

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See accompanying notes to unaudited Condensed Consolidated Financial Statements.

Table of Contents**Envestnet, 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, 2011	43,515,899	\$ 218	(11,705,173)	\$ (10,421)	\$ 163,584	\$ (37,742)	\$ 115,639
Exercise of stock options	280,001	1			1,926		1,927
Issuance of common stock - Vesting of restricted stock	21,235						
Issuance of restricted stock	232,150	1			2,758		2,759
Stock-based compensation					3,125		3,125
Purchase of treasury stock (at cost)			(9,661)	(122)			(122)
Net income						623	623
Balance, September 30, 2012	44,049,285	\$ 220	(11,714,834)	\$ (10,543)	\$ 171,393	\$ (37,119)	\$ 123,951

See accompanying notes to unaudited Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2012	2011
OPERATING ACTIVITIES:		
Net income	\$ 623	\$ 5,776
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,016	4,676
Amortization of customer inducements		3,620
Deferred rent and lease incentive	1,366	357
Gain on investments		4
Impairment of customer inducement asset		174
Deferred income taxes	(562)	2,794
Stock-based compensation	3,125	2,359
Interest expense	3	621
Changes in operating assets and liabilities:		
Fees receivable	(487)	544
Prepaid expenses and other current assets	3,084	(872)
Customer inducements		(1,077)
Other non-current assets	(194)	(1,000)
Accrued expenses	1,791	441
Accounts payable	545	306
Deferred revenue	600	(119)
Other non-current liabilities	179	204
Net cash provided by operating activities	19,089	18,808
INVESTING ACTIVITIES:		
Purchase of property and equipment	(4,098)	(4,257)
Capitalization of internally developed software	(1,698)	(1,135)
Repayment of notes payable assumed in acquisition	(174)	(162)
Proceeds from investments	4	23
Goodwill - working capital settlement	889	
Acquisition of businesses, net	(62,352)	
Net cash used in investing activities	(67,429)	(5,531)
FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	1,927	2,702
Issuance of restricted stock	2,759	
Purchase of treasury stock	(122)	(94)
Net cash provided by financing activities	4,564	2,608
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(43,776)	15,885
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	64,909	67,668

CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 21,133	\$ 83,553
Supplemental disclosure of cash flow information - cash paid during the period for:		
Income taxes	\$ 604	\$ 732
Supplemental disclosure of non-cash investing and financing activities:		
Leasehold improvements funded by lease incentive	1,054	491
<i>See accompanying notes to unaudited Condensed Consolidated Financial Statements.</i>		

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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) provide open-architecture wealth management services and technology to independent financial advisors and financial institutions. These services and related technology are provided via the Envestnet AdvisorSuite®, Envestnet | PMC®, Envestnet | Vantage, Envestnet | Prima and Envestnet | Tamarac.

AdvisorSuite 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.

Envestnet | Prima provides institutional-quality research and due diligence on investment and fund managers and Envestnet | Tamarac provides leading rebalancing, performance reporting and practice management software.

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 six registered investment advisor subsidiaries (RIAs) and a registered broker-dealer. Four of the RIAs are registered with the Securities and Exchange Commission (SEC), one RIA is registered only with States of Colorado, North Carolina and Texas and one RIA is registered only with the State of Washington. 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, 2012 and for the three and nine months ended September 30, 2012 and 2011 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, 2012 and the results of operations, stockholders equity and cash flows for the periods presented herein. The condensed consolidated balance sheet as of December 31, 2011 was derived from the Company s audited financial statements for the year ended December 31, 2011 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, 2012 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, 2011.

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

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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, 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.

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Envestnet, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, except share and per share amounts)

Revenue Recognition The Company recognizes revenue from services related to asset management and administration, licensing and professional services fees.

Asset management and administration fees The Company derives revenues from fees charged as a percentage of the assets that are managed or administered on its technology platform by financial advisors, financial institutions, and their clients (collectively customers) and for services the Company provides to its customers. Such services include investment manager due diligence and research, 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. Investment decisions for assets under management or administration are made by our customers. The asset management and administration fees the Company earns are generally based upon a contractual percentage of assets managed or administered on our platform based on preceding quarter-end values. The contractual fee percentages vary based on the level and type of services the Company provides to its customers. Fees related to assets under management or administration increase or decrease based on values of existing customer accounts. The values are affected by inflows or outflows of customer funds and market fluctuations.

Licensing and professional services fees

Licensing The Company derives licensing fees from recurring contractual fixed fee contracts with larger financial institutions or enterprise clients. Licensing contracts allow the customer to provide a unique configuration of platform features and investment solutions for their advisors. The licensing fees vary based on the type of services provided and our revenues received under license agreements are recognized over the contractual term.

The Company's license agreements do not generally provide its customers the ability to take possession of its software or host the software on its own systems or through a hosting arrangement with an unrelated party. However, in a certain instance, a customer has the ability to take possession of the software, and accordingly, the Company considers this circumstance as a software multiple-element arrangement. As a software multiple-element arrangement, the Company is required to determine whether there is vendor specific objective evidence (VSOE) of the various elements, including the software license and service components. The Company has not established VSOE of fair value for the separate components, and accordingly, recognizes revenue from these arrangements at such time as all elements of the arrangement have been delivered.

For the Company's non-software multiple-element arrangements, the Company allocates the revenue in the arrangement using VSOE or third-party evidence (TPE) of selling price, or using the estimated selling price (ESP) of deliverables if it does not have VSOE or TPE. VSOE is the price charged when the same or similar product or service is sold separately. Many of the Company's contracts renew automatically at the same rate as the original contract. The Company defines VSOE as the renewal rates of the standalone transactions.

TPE is determined based on the prices charged by the Company's competitors for a similar deliverable when sold separately. However, due to the difficulty in obtaining sufficient information on competitor pricing and differences in the Company's product offerings when compared with those of the Company's peers, the Company generally is unable to reliably determine TPE.

ESP is the Company's best estimate of selling price of an element in a transaction involving multiple deliverables. If the Company is unable to establish selling price using either VSOE or TPE, the Company uses ESP in the allocation of arrangement consideration. The objective of ESP is to determine the price at which the Company would transact business if the product or service were sold on a standalone basis. The Company determines ESP based on revenue price drivers applied within a narrow range.

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For multiple-element arrangements, the consideration allocated to online license fees is recognized on a straight line basis over the initial contract period, which typically ranges from one to five years and commences with the completed implementation date for the related product. The Company generally recognizes revenue for consideration allocated to implementation and consulting services in a multiple-element arrangement as services are performed because these services have standalone value separate from the online license fees.

Professional services The Company derives professional service fees from providing contractual customized service platform software development, which are recognized under a proportional performance model utilizing an output based approach. The Company's contracts have fixed prices, and generally specify or quantify interim deliverables.

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Envestnet, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, except share and per share amounts)

Substantially all of the Company's revenues are based on contractual arrangements. Revenues are recognized in the periods in which the related services are performed provided that persuasive evidence of an agreement exists, the fee is fixed or determinable, and collectability is reasonably assured. Cash received by the Company in advance of the performance of services is deferred and recognized as revenue when earned. Certain portions of the Company's revenues require management's consideration of the nature of the client relationship in determining whether to recognize as revenue the gross amount billed or net amount retained after payments are made to providers for certain services related to the product or service offering.

The two main factors the Company uses to determine whether to record revenue on a gross or net basis is based on whether:

the Company has a direct contract with the third party provider; and

the Company has discretion in establishing fees paid by the customer and fees due to the third party service provider.

When customer fees include charges for third party service providers where the Company has a direct contract with such third party service providers, gross revenue recognized by the Company equals the fee paid by customer. The cost of revenues recognized by the Company is the amount due to the third party provider.

In instances where the Company does not have a direct contract with the third party service provider, the Company does not recognize any revenue or expense. The fees that are collected from the customer by the Company and are remitted to the third party service provider are considered pass through amounts and accordingly are not a component of revenue or cost of revenues.

Deferred Revenue Deferred revenue primarily consists of implementation and set up fees, professional services, and license fee payments received in advance from customers.

Segments The Company's chief operating decision maker is its chief executive officer, who reviews financial information presented on a consolidated basis. Historically, the Company has determined that it has a single reporting segment and operating unit structure. As a result of the acquisitions as discussed in Note 3, the Company has re-examined its reporting and operating structure and has determined it continues to maintain a single reporting and operating unit structure.

Recent Accounting Pronouncements

In June 2011, the FASB issued authoritative guidance that amends ASC Topic 220, Comprehensive Income, to require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements, and it eliminates the option to present components of other comprehensive income as a part of the statement of changes in stockholders' equity. In addition, this 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. These amendments are to be applied retrospectively and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011; however, early adoption is permitted. The adoption of this guidance on January 1, 2012 did not have a material impact on the Company's unaudited condensed consolidated financial statements.

In September 2011, the FASB issued authoritative guidance regarding the testing of goodwill for impairment. This guidance allows companies to perform a qualitative assessment to determine whether or not the current two-step quantitative testing method, in which a company compares the fair value of reporting units to its carrying amount including goodwill, must be followed. If a qualitative assessment indicates that it is more-likely-than-not that the fair value of a reporting unit is greater than its carrying amount, then the quantitative impairment test is not required. A company may choose to use the qualitative assessment on none, some, or all of its reporting units or to bypass the qualitative

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assessment and proceed directly to the two-step quantitative testing method. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011; however, early adoption is permitted. The adoption of this guidance on January 1, 2012 did not have a material impact on the Company's unaudited condensed consolidated financial statements.

Table of Contents**Envestnet, Inc.****Notes to Unaudited Condensed Consolidated Financial Statements****(In thousands, except share and per share amounts)****3. Business Acquisitions*****FundQuest Acquisition***

On December 13, 2011, the Company acquired all of the outstanding shares of FundQuest Incorporated (FundQuest), a subsidiary of BNP Paribas Investment Partners USA Holdings, Inc. for total consideration of approximately \$27,796. FundQuest was renamed Envestnet Portfolio Solutions, Inc. (EPS) subsequent to the acquisition. EPS 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 goodwill arising from the acquisition represents the expected synergistic benefits of the transaction and the knowledge and experience of the workforce in place. The goodwill recognized is not deductible for income tax purposes.

During the three months ended March 31, 2012, the Company finalized the estimated working capital adjustment. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date of December 13, 2011 as initially reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2011:

	December 13, 2011 (As initially reported)	Consideration Adjustments	December 13, 2011 (As adjusted)
Accounts receivable	\$ 2,603	\$	\$ 2,603
Prepaid expenses and other current assets	46		46
Property and equipment	442		442
Intangible assets	11,830		11,830
Goodwill	20,192	(889)	19,303
Accounts payable and accrued liabilities	(1,364)		(1,364)
Deferred income taxes	(4,710)		(4,710)
Deferred revenue	(354)		(354)
Total assets acquired	\$ 28,685	\$ (889)	\$ 27,796

The initially reported estimated fair values of assets acquired and liabilities assumed were based on the information that was available at the time the Company filed its annual report on Form 10-K for the year ended December 31, 2011.

Prima Capital Holding, Inc. Acquisition

On April 5, 2012, the Company completed the acquisition of Prima Capital Holding, Inc. (Prima). In accordance with the stock purchase agreement, the Company acquired all of the outstanding shares of Prima for total consideration of approximately \$13,925. Prima provides investment management due diligence, research applications, asset allocation modeling and multi-manager portfolios to the wealth management and retirement industries. Prima's clientele includes seven of the top 20 banks in the U.S. as measured by total assets, independent RIAs, regional broker-dealers, family offices and trust companies. The goodwill arising from the acquisition represents the expected synergistic benefits of the transaction and the knowledge and experience of the workforce in place. The goodwill recognized is not deductible for income tax purposes.

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

The consideration transferred in the acquisition was as follows:

Cash paid to owners	\$ 13,750
Cash assumed	(1,767)
Cash paid for working capital settlement	1,942
	\$ 13,925

During the three months ended June 30, 2012, the Company finalized the working capital settlement. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

Accounts receivable	\$ 72
Prepaid expenses and other current assets	36
Notes receivable	860
Property and equipment	103
Deferred income taxes - non current	1,129
Intangible assets	4,940
Goodwill	9,555
Accounts payable and accrued liabilities	(171)
Deferred income tax liabilities	(1,869)
Deferred revenue	(730)
Total net assets acquired	\$ 13,925

The initially reported estimated fair values of assets acquired and liabilities assumed were based on the information that was available at the time the Company filed its quarterly report on Form 10-Q for the three and six months ended June 30, 2012. Management of the Company believes all relevant information is now available to finalize the estimates.

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

	Amount	Weighted Average Useful Life in Years	Amortization Method
Customer list	\$ 3,740	10	Accelerated
Proprietary technology	700	5	Accelerated
Trade names	500	5	Accelerated
Total	\$ 4,940		

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The results of Prima's operations are included in the consolidated statement of operations beginning April 5, 2012. Prima's revenues and net loss for the three months ended September 30, 2012 totaled \$1,250 and (\$142) respectively. Prima's revenues and net loss for the period beginning April 5, 2012 through September 30, 2012 totaled \$2,399 and (\$472), respectively. The net loss for the three months ended September 30, 2012 and for the period beginning April 5, 2012 through September 30, 2012 included pre-tax acquired intangible asset amortization of \$340 and \$665, respectively.

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

On May 1, 2012, the Company completed the acquisition of Tamarac, Inc. (Tamarac). In accordance with the merger agreement, a newly formed subsidiary of Envestnet merged with and into Tamarac, and Tamarac became a wholly owned subsidiary of Envestnet. Under the terms of the merger agreement, total consideration was approximately \$48,427 for all of the outstanding stock of Tamarac. Tamarac is a provider of sophisticated portfolio management technology that enables RIAs to efficiently deliver customized individual account management to their clients. The goodwill arising from the acquisition represents the expected synergistic benefits of the transaction and the knowledge and experience of the workforce in place. The goodwill recognized is expected to be non-deductible for income tax purposes.

In accordance with the terms of the merger agreement between Envestnet and Tamarac, Tamarac senior management were required to apply at least 50% (up to 100%) of the aggregate proceeds of the Tamarac change of control payment totaling \$2,759 to purchase registered shares of Envestnet common stock (232,150 shares) in an amount equal to 95% multiplied by the Envestnet closing market price on the day before the merger closed (Note 12).

The consideration transferred in the acquisition was as follows:

Cash paid to owners	\$ 54,000
Non-cash consideration	101
Cash assumed	(2,533)
Receivable from working capital settlement	(3,141)
	\$ 48,427

During the three months ended September 30, 2012, the Company finalized the working capital settlement. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

Accounts receivable	\$ 489
Other receivables	681
Prepaid expenses and other current assets	216
Deferred income tax assets	7,235
Property and equipment	444
Deposits	379
Intangible assets	16,150
Goodwill	35,263
Accounts payable and accrued liabilities	(2,356)
Deferred income tax liabilities	(6,143)
Deferred revenue	(3,931)
Total net assets acquired	\$ 48,427

The initially reported estimated fair values of assets acquired and liabilities assumed were based on the information that was available at the time the Company filed its quarterly report on Form 10-Q for the three and six months ended June 30, 2012. Management of the Company believes all relevant information is now available to finalize the estimates.

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

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

	Amount	Weighted Average Useful Life in Years	Amortization Method
Customer list	\$ 8,680	12	Accelerated
Proprietary technology	5,880	8	Accelerated
Trade names	1,590	5	Accelerated
Total	\$ 16,150		

The results of Tamarac's operations are included in the consolidated statement of operations beginning May 1, 2012. Tamarac's revenues and net loss for the three month period ended September 30, 2012 totaled \$3,790 and (\$272), respectively. Tamarac's revenues and net loss for the period May 1, 2012 through September 30, 2012 totaled \$5,574 and (\$861), respectively. The net loss for the three months ended September 30, 2012 and for the period beginning May 1, 2012 through September 30, 2012 included pre-tax acquired intangible asset amortization of \$489 and \$815, respectively.

For the three and nine months ended September 30, 2012, acquisition related costs for FundQuest, Prima and Tamarac, totaled \$216 and \$2,097, respectively, and are included in general and administration expenses.

As a result of the merger with Tamarac, the Company adopted the Envestnet, Inc. Management Incentive Plan for Envestnet | Tamarac Management Employees (the 2012 Plan). The 2012 Plan provides for the grant of up to 559,551 shares of unvested common stock. The unvested common stock vests based upon Tamarac meeting certain performance conditions and then a subsequent two year service condition (Note 13). The Company also granted to certain Tamarac employees 232,150 stock options to acquire Envestnet common stock at an exercise price of \$12.51. These stock options vest on the second anniversary of the grant date (Note 13).

Pro forma results for Envestnet, Inc. giving effect to the FundQuest, Prima and Tamarac acquisitions

The following unaudited pro forma financial information presents the combined results of operations of Envestnet, Prima and Tamarac for the nine months ended September 30, 2012. The following unaudited pro forma financial information presents the combined results of operations of Envestnet, FundQuest, Prima and Tamarac for the three and nine months ended September 30, 2011. For the three and nine months ended September 30, 2012 and 2011, the unaudited pro forma financial information presents the results as if the acquisitions had occurred as of the beginning of 2011.

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

Pro forma financial information is presented for informational purposes and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of the period presented.

**Three Months ended
September 30,**

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		Nine Months ended September 30,	
	2011	2012	2011
Revenue	\$ 39,338	\$ 118,480	\$ 113,621
Net income (loss)	243	(1,156)	1,620
Net income (loss) per share:			
Basic	0.01	(0.04)	0.05
Diluted	0.01	(0.04)	0.05

Table of Contents**Envestnet, Inc.****Notes to Unaudited Condensed Consolidated Financial Statements****(In thousands, except share and per share amounts)****4. Customer Inducements**

Prior to acquiring FundQuest, the Company provided FundQuest and its clients with the Company's platform technology and support services, replacing FundQuest's technology platform (Platform Services Agreement). The Company earned fees based upon a contractual percentage of assets under administration. As a result of the acquisition of FundQuest on December 13, 2011 (Note 3), the Platform Services Agreement was terminated, and all of the assets and liabilities associated with the Platform Services Agreement were eliminated.

In connection with the Platform Services Agreement, the Company was required to make various payments to FundQuest during the contract term as defined in the Platform Services Agreement. These payments included an up-front payment upon completion of the conversion of FundQuest's clients' assets to the Company's technology platform, five annual payments and a payment after the fifth year of the Platform Services Agreement calculated based on the average annual revenues the Company was to receive from FundQuest during the first five years of the contract term. As of December 31, 2010, the estimate of the present value of these payments was approximately \$30,400. The Company also issued to FundQuest a warrant to purchase 1,388,888 shares of its common stock, with an exercise price of \$10.80 for an estimated fair value of \$2,946 as of December 31, 2010. The present value of all payments and the fair value of the warrant was accounted for as customer inducement costs and were amortized as a reduction to the Company's revenues from assets under management or administration on a straight-line basis over the contract term of seven years.

Amortization and imputed interest expense was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Amortization expense	\$	\$ 1,207	\$	\$ 3,620
Imputed interest expense		202		609

5. Property and Equipment

Property and equipment consist of the following:

	Estimated Useful Life	September 30, 2012	December 31, 2011
Cost:			
Office furniture and fixtures	5-7 years	\$ 3,603	\$ 2,713
Computer equipment and software	3 years	21,427	18,942
Other office equipment	5 years	598	598
Leasehold improvements	Shorter of the term of the lease or useful life of the asset	7,595	5,833
		33,223	28,086
Less accumulated depreciation and amortization		(20,929)	(16,995)
Property and equipment, net		\$ 12,294	\$ 11,091

Table of Contents**Investnet, Inc.****Notes to Unaudited Condensed Consolidated Financial Statements**

(In thousands, except share and per share amounts)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Depreciation and amortization expense	\$ 1,182	\$ 1,031	\$ 3,442	\$ 2,845

6. Internally Developed Software

Internally developed software consists of the following:

	Estimated Useful Life	September 30, 2012	December 31, 2011
Internally developed software	5 years	\$ 12,563	\$ 10,882
Less accumulated depreciation		(8,510)	(7,358)
Internally developed software, net		\$ 4,053	\$ 3,524

Depreciation expense for internally developed software was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Amortization expense	\$ 409	\$ 392	\$ 1,169	\$ 1,191

7. Goodwill and Intangible Assets

Changes in the carrying amount of the Company's goodwill was as follows:

Balance at December 31, 2011	\$ 22,223
FundQuest adjustment (note 3)	(889)
Prima acquisition (note 3)	9,555
Tamarac acquisition (note 3)	35,263
Balance at September 30, 2012	\$ 66,152

Table of Contents**Envestnet, Inc.****Notes to Unaudited Condensed Consolidated Financial Statements**

(In thousands, except share and per share amounts)

Intangible assets consist of the following:

	Useful Life	September 30, 2012			December 31, 2011		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer list	4 - 8 years	\$ 28,103	\$ (7,288)	20,815	\$ 15,683	\$ (3,458)	\$ 12,225
Proprietary technology	5 - 8 years	6,580	(418)	6,162			
Trade names	5 years	2,090	(157)	1,933			
Total intangible assets		\$ 36,773	\$ (7,863)	\$ 28,910	\$ 15,683	\$ (3,458)	\$ 12,225

Amortization expense for intangible assets was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Amortization expense	\$ 1,802	\$ 127	\$ 4,405	\$ 640

8. Other Non-Current Assets

Other non-current assets consist of the following:

	September 30, 2012	December 31, 2011
Investment in private company	\$ 1,250	\$ 1,250
Deposits:		
Lease	1,660	1,538
Other	264	259
Other assets	370	115
Total other non-current assets	\$ 3,544	\$ 3,162

Table of Contents**Envestnet, Inc.****Notes to Unaudited Condensed Consolidated Financial Statements****(In thousands, except share and per share amounts)****9. 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, totaled approximately \$17,681 and \$52,383 as of September 30, 2012 and December 31, 2011, respectively and are included in cash and cash equivalents in the unaudited condensed consolidated balance sheet.

10. Accrued Expenses

Accrued expenses consist of the following:

	September 30, 2012	December 31, 2011
Accrued investment manager fees	\$ 11,971	\$ 8,451
Accrued compensation and related taxes	5,088	4,230
Accrued professional services	380	481
Accrued restructuring charges	2	290
Other accrued expenses	1,451	1,467
Total accrued expenses	\$ 18,892	\$ 14,919

As a result of the FundQuest, Prima and Tamarac acquisitions, the Company incurred restructuring charges, primarily severance charges related to the termination of certain FundQuest and Tamarac employees and lease abandonment charges related to Prima in the nine months ended September 30, 2012.

In the three and nine months ended September 30, 2012, the Company recognized pretax restructuring charges of zero and \$115, respectively. In the three and nine months ended September 30, 2011, the Company recognized pretax restructuring charges of zero and \$53, respectively.

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

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

Balance at December 31, 2011	\$ 290
Restructuring provision incurred	27
Payments	(298)
Balance at March 31, 2012	19
Restructuring provision incurred	88
Payments	(73)
Balance at June 30, 2012	\$ 34
Restructuring provision incurred	
Payments	(32)
Balance at September 30, 2012	\$ 2

11. 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.

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.

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

Net deferred tax assets consist of the following:

	September 30, 2012	December 31, 2011
Current:		
Deferred revenue	\$ 176	\$ 30
Prepaid expenses and accruals	435	162
Net current deferred tax assets	611	192
Non-Current:		
Deferred rent	\$ 644	\$ 535
Net operating loss and tax credit carry-forwards	17,535	9,910
Loss on investments	2,157	2,157
Amortization and depreciation	(12,236)	(4,516)
Other	2,531	2,050
Net long-term deferred tax assets	10,631	10,136
Net deferred tax assets	11,242	10,328
Less valuation allowance	(3,444)	(3,444)
	\$ 7,798	\$ 6,884

The valuation allowance as of September 30, 2012 and December 31, 2011 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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Income (loss) before income taxes	\$ 923	\$ 3,031	\$ 1,043	\$ 9,471
Income tax provision	372	1,106	420	3,695
Effective tax rate	40.3%	36.5%	40.3%	39.0%

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 \$1,583 in windfall tax benefits associated with its stock-based compensation until a cash tax savings is realized. The benefit will be recorded in stockholders' 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.

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Envestnet, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, except share and per share amounts)

The total amount of the gross liability for unrecognized tax benefits reported in other non-current liabilities was \$752 and \$573 at September 30, 2012 and December 31, 2011, respectively. At September 30, 2012, the amount of unrecognized tax benefits that would benefit the Company's effective tax rate, if recognized, was \$563.

The Company recognizes potential interest and penalties related to unrecognized tax benefits in income tax expense. The Company had accrued interest and penalties of \$209 as of both September 30, 2012 and December 31, 2011.

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, 2011, 2010 and 2009, and fiscal year ended March 31, 2009 remain open to examination by the Internal Revenue Service in their entirety. They also remain open with respect to state taxing jurisdictions.

12. Stockholders Equity

In accordance with the terms of the merger agreement between Envestnet and Tamarac (Note 3 and 13), Tamarac senior management were required to apply at least 50% (up to 100%) of the aggregate proceeds of the Tamarac change of control payment totaling \$2,759 to purchase registered shares of Envestnet common stock (232,150 shares) in an amount equal to 95% multiplied by the Envestnet closing market price on the day before the merger closed. These shares cannot be sold or otherwise transferred for a period of two years following the date of merger. If a participant terminates their employment with the Company or is terminated for cause, the participant shall be required to pay the Company an amount equal to 5% multiplied by the closing market price on the day before the merger closed.

13. Stock-Based Compensation

As a result of the merger between Envestnet and Tamarac (Note 3), the Company adopted the Envestnet, Inc. Management Incentive Plan for Envestnet | Tamarac Management Employees (the 2012 Plan). The 2012 Plan provides for the grant of restricted common stock, stock options and the purchase of common stock for certain Tamarac employees. The maximum number of shares of stock which may be issued with respect to awards under the 2012 Plan shall be equal to 1,023,851 shares of stock.

The 2012 Plan provides for the grant of up to 559,551 shares of unvested common stock (Target Revenue Incentive Awards). The Target Revenue Incentive Awards vest based upon Tamarac meeting certain performance conditions and then a subsequent two year service condition. The Company measured the cost of these awards based on the estimated fair value of the award as of the market closing price on the day before the acquisition closed. The Company is recognizing the estimated expense on a graded-vesting method over a requisite service period of three to five years, which is the estimated vesting period. The Company has estimated expected forfeitures at the grant date and will recognize compensation expense only for those awards expected to vest. The initial forfeiture assumption will be reassessed in subsequent periods and may change based upon new facts and circumstances. Changes in the forfeiture assumptions may impact the total amount of expense ultimately recognized over the vesting period.

The Company also granted to certain Tamarac employees 232,150 stock options to acquire Envestnet common stock at an exercise price of \$12.51. These stock options vest on the second anniversary of the grant date.

In addition, in accordance with the 2012 Plan, Tamarac senior management was required to apply at least 50% (up to 100%) of the aggregate proceeds of the Tamarac change of control payment totaling \$2,759 to purchase registered shares of Envestnet common stock (232,150 shares) in an amount equal to 95% multiplied by the Envestnet closing market price on the day before the merger closed (Note 12). These shares cannot be sold or otherwise transferred for a period of two years following the date of merger. If a participant terminates their employment with the Company or is terminated for cause, the participant shall be required to pay the Company an amount equal to 5% multiplied by the closing

market price on the day before the merger closed.

Stock Options

The Company has stock options and restricted stock outstanding under the 2004 Stock Incentive Plan (the 2004 Plan), the 2010 Long-Term Incentive Plan (the 2010 Plan) and the Envestnet, Inc. Management Incentive Plan for Envestnet | Tamarac Management Employees (the 2012 Plan) as described below (collectively the Plans). As of September 30, 2012, the maximum number of shares available for future issuance under the Plans is 1,785,197.

Table of Contents**Envestnet, 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,	
	2012	2011	2012	2011
Employee stock-based compensation expense	\$ 1,195	\$ 714	\$ 3,125	\$ 2,359
Tax effect on employee stock-based compensation expense	(482)	(261)	(1,256)	(920)
Net effect on income	\$ 713	\$ 453	\$ 1,869	\$ 1,439

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,	
	2012	2011	2012	2011
Grant date fair value of options	\$	\$	\$ 4.96	\$ 5.26
Volatility			39.6%	39.3%
Risk-free interest rate			1.2%	2.5%
Dividend yield			0.0%	0.0%
Expected term (in years)			6.0	6.0

The following table summarizes option activity under the 2004 Plan, 2010 Plan and 2012 Plan:

	Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2011	4,863,718	\$ 8.19		
Granted	149,652	12.45		
Exercised	(124,956)	7.59		
Forfeited	(2,000)	9.70		
Outstanding as of March 31, 2012	4,886,414	8.34	6.7	\$ 20,544
Granted	589,263	12.55		
Exercised	(99,837)	6.18		
Forfeited	(1,800)	9.00		
Outstanding as of June 30, 2012	5,374,040	8.84	6.8	17,737
Granted				
Exercised	(55,208)	6.56		
Forfeited	(8,100)	9.87		

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Outstanding as of September 30, 2012	5,310,732	8.86	6.6	16,192
Options exercisable	3,379,804	7.68	5.5	13,820

Exercise prices of stock options outstanding as of September 30, 2012 range from \$0.11 to \$13.45.

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

Periodically, the Company grants restricted stock awards under the 2010 Plan to employees that vest one-third on each of the first three anniversaries of the grant date. The Company also granted restricted stock awards under the 2012 Plan that vest upon Tamarac meeting certain performance conditions and then a subsequent two year service condition.

The following is a summary of the activity for unvested restricted stock awards granted under all Plans:

	Number of Shares	Weighted- Average Grant Date Fair Value per Share
Balance at December 31, 2011	73,820	\$ 12.26
Granted	155,383	12.44
Vested	(21,235)	12.55
Expired/cancelled	(1,064)	12.45
Forfeited	(104)	12.55
Balance at March 31, 2012	206,800	12.36
Granted	559,551	12.51
Forfeited	(381)	12.49
Balance at June 30, 2012	765,970	12.47
Granted		
Forfeited	(1,351)	12.49
Balance at September 30, 2012	764,619	12.47

At September 30, 2012, there was \$6,703 unrecognized compensation cost related to unvested stock options which the Company expects to recognize over a weighted-average period of 1.9 years. At September 30, 2012, there was \$2,043 of unrecognized compensation cost related to unvested restricted stock which the Company expects to recognize over a weighted-average period of 3.88 years.

14. Earnings Per Share

Basic earnings per share is computed by dividing net earnings available to common stockholders by the weighted average number of shares of common stock outstanding for the period. Diluted earnings per share reflects the weighted average number of shares outstanding after the assumed conversion of all dilutive securities.

Table of Contents**Envestnet, Inc.****Notes to Unaudited Condensed Consolidated Financial Statements**

(In thousands, except share and per share amounts)

The following is a reconciliation of net earnings to basic earnings per share and diluted earnings per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	\$ 551	\$ 1,925	\$ 623	\$ 5,776
Basic number of weighted-average shares outstanding	32,296,636	31,760,998	32,102,386	31,589,279
Effect of dilutive shares:				
Options to purchase common stock	889,373	919,465	897,644	1,052,340
Common warrants	127,324	190,806	138,889	264,451
Unvested restricted stock	45,373		40,125	31,531
Diluted number of weighted-average shares outstanding	33,358,706	32,871,269	33,179,044	32,937,601
Net income per share:				
Basic	\$ 0.02	\$ 0.06	\$ 0.02	\$ 0.18
Diluted	\$ 0.02	\$ 0.06	\$ 0.02	\$ 0.18

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,	
	2012	2011	2012	2011
Options to purchase common stock	1,224,748	485,833	1,224,748	71,000
Common warrants				
Unvested restricted stock	559,551	64,105	559,551	

15. Major Customer

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

	September 30, 2012	December 31, 2011
Fidelity	*	34%

* Percentage is less than 10%.

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Investnet, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, except share and per share amounts)

The Company has not established an allowance for doubtful accounts related to the receivables from this customer as of September 30, 2012 or December 31, 2011.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Fidelity	21%	31%	22%	31%

16. Commitments and Contingencies

The Company is involved in litigation arising in the ordinary course of its business. Management 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 minimum lease commitments under these operating leases was as follows:

Years ending December 31:	
Remainder of 2012	\$ 857
2013	4,189
2014	5,075
2015	5,272
2016	5,490
Thereafter	26,411
	\$ 47,294

Table of Contents**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. All amounts are in thousands, except share and per share information, financial advisors and client accounts.

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, 2011 (the 2011 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 2011 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 2011 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 independent provider of integrated wealth management software and services to financial advisors and institutions. Envestnet AdvisorSuite® software empowers advisors to better manage client outcomes and strengthen their practice. Envestnet® also offers advanced portfolio solutions through Envestnet | PMC®. Envestnet | Vantage gives advisors an in-depth view of clients' various investments, empowering them to give holistic, personalized advice. Envestnet | Prima provides institutional-quality research and due diligence on investment and fund managers and Envestnet | Tamarac provides leading rebalancing, reporting and practice management software.

By integrating a wide range of investment solutions and services, our Web-based 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 financial advisory firms and 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 that 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 28% from \$25,971 in the three months ended September 30, 2011 to \$33,223 in the three months ended September 30, 2012. Revenues from AUM or AUA increased 24% from \$74,669 in the nine months ended September 30, 2011 to \$92,498 in the nine months ended September 30, 2012. The increase in revenues from assets under management or administration were a result of the positive effects of new account growth and positive net flows of AUM or AUA, as well as an increase in revenues related to the FundQuest acquisition.

Total revenues, which include licensing and professional service fees, increased 32% from \$32,040 in the three months ended September 30, 2011 to \$42,283 in the three months ended September 30, 2012. Total revenues increased 22% from \$92,636 in the nine months ended

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September 30, 2011 to \$112,887 in the nine months ended September 30, 2012. The overall increase in revenues were favorably impacted by revenues related to acquired companies.

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Net income for the three months ended September 30, 2012 was \$551, or \$0.02 per diluted share, compared to \$1,925, or \$0.06 per diluted share for the three months ended September 30, 2011. Net income for the nine months ended September 30, 2012 was \$623, or \$0.02 per diluted share, compared to net income of \$5,776, or \$0.18 per diluted share for the nine months ended September 30, 2011.

Adjusted revenues for the three months ended September 30, 2012 was \$42,684, an increase of 33% from \$32,040 in the prior year period. Adjusted revenue for the nine months ended September 30, 2012 was \$113,905, an increase of 23% from \$92,636 in the prior year period.

Adjusted EBITDA for the three months ended September 30, 2012 was \$6,362, a decrease of 16% from \$7,567 in the prior year period. Adjusted EBITDA for the nine months ended September 30, 2012 was \$16,770, a decrease of 20% from \$20,913 in the prior year period.

Adjusted net income for the three months ended September 30, 2012 was \$2,853, or \$0.09 per diluted share, compared to adjusted net income of \$3,791, or \$0.12 per diluted share in the prior year period. Adjusted net income for the nine months ended September 30, 2012 was \$7,282, or \$0.22 per diluted share, compared to adjusted net income of \$10,234, or \$0.31 per diluted share in the prior year period.

Adjusted revenue, Adjusted EBITDA and Adjusted net income are non-GAAP financial measures. See [Non-GAAP Financial Measures](#) for a discussion of non-GAAP measures and a reconciliation of such measures to GAAP.

Recent Events

Prima Capital Holding, Inc. Acquisition

On April 5, 2012, we completed the acquisition of Prima Capital Holding, Inc. ([Prima](#)). In accordance with the stock purchase agreement, we acquired all of the outstanding shares of Prima for consideration of approximately \$13,925. Prima provides investment management due diligence, research applications, asset allocation modeling and multi-manager portfolios to the wealth management and retirement industries. Prima's clientele includes seven of the top 20 banks in the U.S. as measured by total assets, independent RIAs, regional broker-dealers, family offices and trust companies.

Tamarac, Inc. Acquisition

On May 1, 2012, the Company completed the acquisition of Tamarac, Inc. ([Tamarac](#)). In accordance with the merger agreement, a newly formed subsidiary of Envestnet merged with and into Tamarac, and Tamarac became a wholly owned subsidiary of Envestnet. Under the terms of the merger agreement, total consideration was approximately \$48,427 for all of the outstanding stock of Tamarac. Such shares vest at pre-established intervals, but in no event later than May 15, 2015, based upon Tamarac meeting certain financial targets. Tamarac is a provider of sophisticated portfolio management technology that enables RIAs to efficiently deliver customized individual account management to their clients.

As a result of the merger with Tamarac, we adopted the Envestnet, Inc. Management Incentive Plan for Envestnet | Tamarac Management Employees (the [2012 Plan](#)). The 2012 Plan provides for the grant of up to 559,551 shares of unvested common stock. The unvested common stock vests based upon Tamarac meeting certain performance conditions and then a subsequent two year service condition (Note 13). We also granted to certain Tamarac employees, 232,150 stock options to acquire Envestnet common stock at an exercise price of \$12.51. These stock options vest on the second anniversary of the grant date.

In accordance with the terms of the merger agreement between Envestnet and Tamarac, Tamarac senior management were required to apply at least 50% (up to 100%) of the aggregate proceeds of the Tamarac change of control payment totaling \$2,759 to purchase registered shares of Envestnet common stock (232,150 shares) in an amount equal to 95% multiplied by the Envestnet closing market price on the day before the merger closed.

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.

Licensing metrics in the table below include Envestnet | Tamarac, which added approximately \$149 billion in assets, 550,000 accounts and 1,700 advisors as of May 1, 2012.

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	September 30, 2011	December 31, 2011	As of March 31, 2012	June 30, 2012	September 30, 2012
	(in millions except platform accounts and advisors, unaudited)				
Platform Assets					
Assets Under Management (AUM)	\$ 15,560	\$ 22,936	\$ 26,084	\$ 26,758	\$ 29,232
Assets Under Administration (AUA)	50,607	47,148	54,336	60,511	64,229
Subtotal AUM/A	66,167	70,084	80,420	87,269	93,461
Licensing	61,571	69,514	76,235	229,268	254,256
Total Platform Assets	\$ 127,738	\$ 139,598	\$ 156,655	\$ 316,537	\$ 347,717
Platform Accounts					
AUM	83,073	124,636	134,294	141,695	148,920
AUA	254,100	216,038	229,942	274,322	278,192
Subtotal AUM/A	337,173	340,674	364,236	416,017	427,112
Licensing	572,791	588,038	588,936	1,138,233	1,170,978
Total Platform Accounts	909,964	928,712	953,172	1,554,250	1,598,090
Advisors					
AUM/A	14,206	13,887	14,386	15,045	15,735
Licensing	5,522	5,709	5,351	6,758	6,878
Total Advisors	19,728	19,596	19,737	21,803	22,613

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, 2012					
	As of 6/30/12	Gross Sales	Redemptions	Net Flows	Market Impact	As of 9/30/12
	(in millions except account data, unaudited)					
Assets under Management (AUM)	\$ 26,758	\$ 2,955	\$ (1,568)	\$ 1,387	\$ 1,087	\$ 29,232
Assets under Administration (AUA)	60,511	4,914	(3,377)	1,537	2,181	64,229
Subtotal AUM/A	\$ 87,269	\$ 7,869	\$ (4,945)	\$ 2,924	\$ 3,268	\$ 93,461

Fee-Based Accounts 416,017 35,620 (24,525) 11,095 427,112

Gross sales for the three months ended September 30, 2012 included \$0.2 billion in new client conversions.

	Asset Rollforward - Nine Months Ended September 30, 2012					
	As of 12/31/11	Gross Sales	Redemptions	Net Flows	Market Impact	As of 9/30/12
	(in millions except account data, unaudited)					
Assets under Management (AUM)	\$ 22,936	\$ 9,168	\$ (4,942)	\$ 4,226	\$ 2,070	\$ 29,232
Assets under Administration (AUA)	47,148	22,044	(8,955)	13,089	3,992	64,229
Subtotal AUM/A	\$ 70,084	\$ 31,212	\$ (13,897)	\$ 17,315	\$ 6,062	\$ 93,461

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Fee-Based Accounts

340,674

148,019

(61,581)

86,438

427,112

27

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Gross sales for the nine months ended September 30, 2012 included \$8.9 billion in new client conversions.

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

	September 30, 2011	December 31, 2011	March 31, 2012	June 30, 2012	September 30, 2012
Assets under management (AUM)	24%	33%	32%	31%	31%
Assets under administration (AUA)	76%	67%	68%	69%	69%
	100%	100%	100%	100%	100%

Results of Operations

Three months ended September 30, 2012 compared to three months ended September 30, 2011

	Three Months Ended September 30, 2012 2011 (In thousands, unaudited)		Increase (Decrease) Amount %				
Revenues:							
Assets under management or administration	\$	33,223	\$	25,971	\$	7,252	28%
Licensing and professional services		9,060		6,069		2,991	49%
Total revenues		42,283		32,040		10,243	32%
Operating expenses:							
Cost of revenues		15,088		11,429		3,659	32%
Compensation and benefits		15,261		10,160		5,101	50%
General and administration		7,621		5,675		1,946	34%
Depreciation and amortization		3,393		1,550		1,843	119%
Total operating expenses		41,363		28,814		12,549	44%
Income from operations		920		3,226		(2,306)	-71%
Other income (expense):							
Interest income		3		19		(16)	-84%
Interest expense				(206)		206	-100%
Gain (loss) on investments				(8)		8	-100%
Total other income (expense)		3		(195)		198	-102%
Income before income tax provision		923		3,031		(2,108)	-70%
Income tax provision		372		1,106		(734)	-66%
Net income	\$	551	\$	1,925	\$	(1,374)	-71%

Revenues

Total revenues increased 32% from \$32,040 in the three months ended September 30, 2011 to \$42,283 in the three months ended September 30, 2012. The increase was primarily due to an increase in revenues from AUM or AUA of \$7,252. Revenues from assets under management or administration were 79% and 81% of total revenues in the three months ended September 30, 2012 and 2011, respectively.

Assets under management or administration

Revenues earned from AUM or AUA increased 28% from \$25,971 in the three months ended September 30, 2011 to \$33,223 in the three months ended September 30, 2012. The increase was primarily due to an increase in asset values applicable to our quarterly billing cycle in 2012, relative to the corresponding period in 2011. In the third quarter of 2012, revenues were positively affected by new account growth and positive net flows of AUM or AUA during the first three quarters of 2012, as well as an increase in revenues related to the FundQuest acquisition.

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The number of financial advisors with AUM or AUA that had client accounts on our technology platform increased from 14,206 as of September 30, 2011 to 15,735 as of September 30, 2012 and the number of AUM or AUA client accounts increased from approximately 337,000 as of September 30, 2011 to approximately 427,000 as of September 30, 2012.

Licensing and professional services

Licensing and professional services revenues increased 49% from \$6,069 in the three months ended September 30, 2011 to \$9,060 in the three months ended September 30, 2012, primarily due to an increase in licensing revenue of \$2,292 and an increase in professional services revenue of \$705. The increase in licensing revenue was primarily a result of the acquisitions of Prima and Tamarac, partially offset by the renegotiated license agreement with Fidelity.

Cost of revenues

Cost of revenues increased 32% from \$11,429 in the three months ended September 30, 2011 to \$15,088 in the three months ended September 30, 2012, primarily due to a corresponding increase in revenues from AUM or AUA. As a percentage of total revenues, cost of revenues remained flat at 36% in the three months ended September 30, 2011 and 2012.

Compensation and benefits

Compensation and benefits increased 50% from \$10,160 in the three months ended September 30, 2011 to \$15,261 in the three months ended September 30, 2012, primarily due to an increase in salaries, benefits and commissions of \$4,270 related to an increase in headcount as a result of the FundQuest, Prima and Tamarac acquisitions. As a percentage of total revenues, compensation and benefits increased from 32% in the three months ended September 30, 2011 to 36% in the three months ended September 30, 2012.

General and administration

General and administration expenses increased 34% from \$5,675 in the three months ended September 30, 2011 to \$7,621 in the three months ended September 30, 2012, primarily due to increases in occupancy costs of \$477, communication, research and data services expense of \$407, marketing costs of \$286 and travel and entertainment expense of \$284. 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 119% from \$1,550 in the three months ended September 30, 2011 to \$3,393 in the three months ended September 30, 2012, primarily due to an increase in intangible asset amortization of \$1,675. The increase in intangible asset amortization was due to an increase in intangible assets as a result of the FundQuest, Prima and Tamarac acquisitions (see note 3 to the unaudited condensed consolidated financial statements). As a percentage of total revenues, depreciation and amortization expense increased from 5% in the three months ended September 30, 2011 to 8% in the three months ended September 30, 2012.

Interest expense

Interest expense decreased from \$206 in the three months ended September 30, 2011 to zero in the three months ended September 30, 2012, primarily due to three months of imputed interest on payments due to FundQuest compared to no imputed interest in the current year period. As discussed in notes 3 and 4 to the unaudited consolidated financial statements, due to the FundQuest acquisition and the related termination of the Platform Services Agreement with FundQuest, we have ceased imputing interest expense as of the date of acquisition.

Table of Contents**Income tax provision**

	Three Months Ended September 30,	
	2012	2011
	(in thousands, unaudited)	
Income tax provision	\$ 372	\$ 1,106
Effective tax rate	40.3%	36.5%

For the three months ended September 30, 2012 and September 30, 2011, our effective tax rate differs from the statutory rate primarily due to the effect of state taxes and permanent differences.

Results of Operations**Nine months ended September 30, 2012 compared to nine months ended September 30, 2011**

	Nine Months Ended September 30,		Increase (Decrease)	
	2012	2011	Amount	%
	(In thousands, unaudited)			
Revenues:				
Assets under management or administration	\$ 92,498	\$ 74,669	\$ 17,829	24%
Licensing and professional services	20,389	17,967	2,422	13%
Total revenues	112,887	92,636	20,251	22%
Operating expenses:				
Cost of revenues	40,163	32,474	7,689	24%
Compensation and benefits	40,031	30,693	9,338	30%
General and administration	22,542	15,809	6,733	43%
Depreciation and amortization	9,016	4,676	4,340	93%
Restructuring charges	115	53	62	117%
Total operating expenses	111,867	83,705	28,162	34%
Income from operations	1,020	8,931	(7,911)	-89%
Other income (expense):				
Interest income	26	65	(39)	-60%
Interest expense	(3)	(621)	618	-100%
Other income		1,100	(1,100)	-100%
Gain on investments		(4)	4	-100%
Total other income (expense)	23	540	(517)	-96%
Income before income tax provision	1,043	9,471	(8,428)	-89%
Income tax provision	420	3,695	(3,275)	-89%
Net income	\$ 623	\$ 5,776	\$ (5,153)	-89%

Revenues

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Total revenues increased 22% from \$92,636 in the nine months ended September 30, 2011 to \$112,887 in the nine months ended September 30, 2012. The increase was primarily due to an increase in revenues from AUM or AUA of \$17,829. Revenues from AUM and AUA were 82% and 81% of total revenues in the nine months ended September 30, 2012 and 2011, respectively.

Assets under management or administration

Revenues earned from AUM or AUA increased 24% from \$74,669 in the nine months ended September 30, 2011 to \$92,498 in the nine months ended September 30, 2012. The increase was primarily due to an increase in asset values applicable to our quarterly billing cycles in 2012, relative to the corresponding periods in 2011. In 2012, revenues were positively affected by new account growth and positive net flows of AUM or AUA during 2011 and the first six months of 2012, as well as an increase in revenues related to the FundQuest acquisition.

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The number of financial advisors with AUM or AUA that had client accounts on our technology platform increased from 14,206 as of September 30, 2011 to 15,735 as of September 30, 2012 and the number of AUM or AUA client accounts increased from approximately 337,000 as of September 30, 2011 to approximately 427,000 as of September 30, 2012.

Licensing and professional services

Licensing and professional services revenues increased 13% from \$17,967 in the nine months ended September 30, 2011 to \$20,389 in the nine months ended September 30, 2012. This increase was primarily due to an increase in licensing revenue of \$828 and an increase in professional services revenue of \$1,596. The increase in licensing revenue was primarily a result of the acquisitions of Prima and Tamarac, partially offset by the renegotiated license agreement with Fidelity.

Cost of revenues

Cost of revenues increased 24% from \$32,474 in the nine months ended September 30, 2011 to \$40,163 in the nine months ended September 30, 2012, primarily due to the corresponding increase in revenues from AUM or AUA. As a percentage of total revenues, cost of revenues increased from 35% in the nine months ended September 30, 2011 to 36% in the nine months ended September 30, 2012.

Compensation and benefits

Compensation and benefits increased 30% from \$30,693 in the nine months ended September 30, 2011 to \$40,031 in the nine months ended September 30, 2012, primarily due to an increase in salaries, benefits and commissions of \$8,223 related to an increase in headcount as a result of the FundQuest, Prima and Tamarac acquisitions. As a percentage of total revenues, compensation and benefits increased from 33% in the nine months ended September 30, 2011 to 35% in the nine months ended September 30, 2012.

General and administration

General and administration expenses increased 43% from \$15,809 in the nine months ended September 30, 2011 to \$22,542 in the nine months ended September 30, 2012, primarily due to increases in transaction related costs of \$1,785, occupancy costs of \$1,357, professional and legal fees of \$774, communication, research and data services expense of \$912 and travel and entertainment costs of \$645. As a percentage of total revenues, general and administration expenses increased from 17% in the nine months ended September 30, 2011 to 20% in the nine months ended September 30, 2012.

Depreciation and amortization

Depreciation and amortization expense increased 93% from \$4,676 in the nine months ended September 30, 2011 to \$9,016 in the nine months ended September 30, 2012, primarily due to an increase in intangible asset amortization of \$3,765 and fixed asset depreciation of \$597. The increase in intangible asset amortization was due to an increase in intangible assets as a result of the FundQuest, Prima and Tamarac acquisitions (see note 3 to the unaudited condensed consolidated financial statements). The increase in fixed asset depreciation 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 increased from 5% in the nine months ended September 30, 2011 to 8% in the nine months ended September 30, 2012.

Interest expense

Interest expense decreased from \$621 in the nine months ended September 30, 2011 to \$3 in the nine months ended September 30, 2012, primarily due to nine months of imputed interest on payments due to FundQuest in 2011 compared to no imputed interest in the current year period. As discussed in notes 3 and 4 to the unaudited consolidated financial statements, due to the FundQuest acquisition and the related termination of the Platform Services Agreement with FundQuest, we have ceased imputing interest expense as of the date of acquisition.

Other income

Other income decreased from \$1,100 in the nine months ended September 30, 2011 to zero in the nine months ended September 30, 2012. In 2011, the Company received proceeds from an insurance recovery.

Table of Contents***Income tax provision***

	Nine Months Ended September 30,	
	2012	2011
	(in thousands, unaudited)	
Income tax provision	\$ 420	\$ 3,695
Effective tax rate	40.3%	39.0%

Our effective tax rate for the nine months ended September 30, 2012 and 2011 differs from the statutory rate primarily due to the effect of state taxes and permanent differences.

Non GAAP Financial Measures

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in thousands, unaudited)			
Adjusted revenues	\$ 42,684	\$ 32,040	\$ 113,905	\$ 92,636
Adjusted EBITDA	6,362	7,567	16,770	20,913
Adjusted net income	2,853	3,791	7,282	10,234
Adjusted net income per share	0.09	0.12	0.22	0.31

Adjusted revenues excludes the effect of purchase accounting on the fair value of acquired deferred revenue. Under U.S. GAAP, we record at fair value the acquired deferred revenue for contracts in effect at the time the entities were acquired. Consequently, revenue related to acquired entities for periods subsequent to the acquisition does not reflect the full amount of revenue that would have been recorded by these entities had they remained stand-alone entities.

Adjusted EBITDA represents net income before the effect of purchase accounting on the fair value of acquired deferred revenue, interest income, interest expense, income tax provision, depreciation and amortization, stock-based compensation expense, gain on investments, other income, restructuring charges and transaction costs, severance, customer inducement costs and litigation related expense.

Adjusted net income represents net income before the effect of purchase accounting on the fair value of acquired deferred revenue, stock-based compensation expense, restructuring charges and transaction costs, severance, amortization of acquired intangibles, customer inducement costs, 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 divided by the diluted number of weighted-average shares outstanding.

Our Board of Directors and our management use adjusted revenues, adjusted EBITDA, 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, Board of Directors and our management may also consider adjusted EBITDA, among other factors, when determining management's incentive compensation.

We also present adjusted revenues, adjusted EBITDA, 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 revenues provide comparisons from period to period by excluding the effect of

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purchase accounting on the fair value of acquired deferred revenue. 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, litigation-related expense, severance, gain on investments, 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 revenues, adjusted EBITDA, adjusted net income and adjusted net income per share are useful to investors in evaluating our operating performance because securities analysts use adjusted revenues, adjusted EBITDA, 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 net income and adjusted net income per share.

Adjusted revenues, adjusted EBITDA, 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, 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 revenues, adjusted EBITDA, 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 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 revenues, adjusted EBITDA, 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 revenues, adjusted EBITDA, adjusted net income and adjusted net income per share do not reflect changes in, or cash requirements for, our working capital needs;

Adjusted revenues, adjusted EBITDA, 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 2012 and 2011 we had net cash income tax payments of \$604 and \$732 in the nine months ended September 30, 2012 and 2011, 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 revenues, adjusted EBITDA, 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 revenues, adjusted EBITDA, 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 revenues, adjusted EBITDA, adjusted net income and adjusted net income per share to revenues, net income and net income per share, 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.

The following table sets forth a reconciliation of total revenues to adjusted revenues based on our historical results:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in thousands, unaudited)			
Total revenues	\$ 42,283	\$ 32,040	\$ 112,887	\$ 92,636
Deferred revenue fair value adjustment	401		1,018	
Adjusted revenues	\$ 42,684	\$ 32,040	\$ 113,905	\$ 92,636

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in thousands, unaudited)			
Net income	\$ 551	\$ 1,925	\$ 623	\$ 5,776
Add (deduct):				
Deferred revenue fair value adjustment	401		1,018	
Interest income	(3)	(19)	(26)	(65)
Interest expense		206	3	621
Income tax provision	372	1,106	420	3,695
Depreciation and amortization	3,393	1,550	9,016	4,676
Stock-based compensation expense	1,195	714	3,125	2,359
Restructuring charges and transaction costs	215	302	2,212	365
Severance	146	370	229	673
Impairment of customer inducement asset		174		174
Litigation related expense	92	24	150	115
Gain on investments		8		4
Other income				(1,100)
Customer inducement costs		1,207		3,620
Adjusted EBITDA	\$ 6,362	\$ 7,567	\$ 16,770	\$ 20,913

The following table sets forth the reconciliation of net income 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,	
	2012 *	2011 *	2012 *	2011 *
	(in thousands, unaudited)			
Net income	\$ 551	\$ 1,925	\$ 623	\$ 5,776
Add:				
Deferred revenue fair value adjustment	240		609	
Stock-based compensation expense	714	427	1,868	1,411
Restructuring charges and transaction costs	129	181	1,322	218
Severance	87	221	137	402
Impairment of customer inducement asset		104		104
Amortization of acquired intangibles	1,077	76	2,633	383
Litigation related expense	55	14	90	69
Customer inducement costs		722		2,165
Other income				(658)
Imputed interest expense		121		364
Adjusted net income	2,853	3,791	7,282	10,234
Diluted number of weighted-average shares outstanding	33,358,706	32,871,269	33,179,044	32,937,601
Adjusted net income per share	\$ 0.09	\$ 0.12	\$ 0.22	\$ 0.31

* Adjustments are tax effected using an income tax rate of 40.2% for 2012 and 2011.

Table of Contents**Liquidity and Capital Resources**

As of September 30, 2012, we had total cash and cash equivalents of \$21,133 compared to \$64,909 as of December 31, 2011. 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,	
	2012	2011
	(In thousands, unaudited)	
Net cash provided by operating activities	\$ 19,089	\$ 18,808
Net cash used in investing activities	(67,429)	(5,531)
Net cash provided by financing activities	4,564	2,608
Net increase (decrease) in cash and cash equivalents	(43,776)	15,885
Cash and cash equivalents, end of period	21,133	83,553

Operating Activities

Net cash provided by operating activities for the nine months ended September 30, 2012 increased by \$281 compared to the same period in 2011, primarily due to a decrease in net income of \$5,153 from the nine months ended September 30, 2012 compared to the prior year period, offset by an increase in \$4,340 in depreciation and amortization expense and various other non-cash adjustments and changes in operating assets and liabilities.

Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2012 increased by \$61,898 compared to the same period in 2011. During the nine months ended September 30, 2012 the company acquired Prima and Tamarac for a total consideration of \$62,352 (see note 3 to the unaudited condensed consolidated financial statements). Cash disbursements in 2012 and 2011 totaled \$5,796 and \$5,392, respectively, for purchases of property and equipment and capitalization of internally developed software. In the nine months ended September 30, 2012 the Company also decreased goodwill by \$889 resulting from the finalization of the working capital adjustment related to the FundQuest acquisition (see note 3 to the unaudited condensed consolidated financial statements).

Financing Activities

Net cash provided by financing activities for the nine months ended September 30, 2012 increased by \$1,956 primarily a result of the proceeds from the issuance of restricted stock of \$2,759, offset by a decrease in proceeds from the exercise of stock options of \$775.

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 nine months ended September 30, 2012, 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, 2011 included in our 2011 Form 10-K.

Table of Contents**Commitments and Off-Balance Sheet Arrangements****Leases**

The following table sets forth information regarding our future minimum lease obligations as of September 30, 2012:

Years ending December 31:	
Remainder of 2012	\$ 857
2013	4,189
2014	5,075
2015	5,272
2016	5,490
Thereafter	26,411
	\$ 47,294

Recent Accounting Pronouncements

In June 2011, the FASB issued authoritative guidance that amends ASC Topic 220, Comprehensive Income, to require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements, and it eliminates the option to present components of other comprehensive income as a part of the statement of changes in stockholders' equity. In addition, this 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. These amendments are to be applied retrospectively and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011; however, early adoption is permitted. The adoption of this guidance on January 1, 2012 did not have a material impact on our consolidated financial statements.

In September 2011, the FASB issued authoritative guidance regarding the testing of goodwill for impairment. This guidance allows companies to perform a qualitative assessment to determine whether or not the current two-step quantitative testing method, in which a company compares the fair value of reporting units to its carrying amount including goodwill, must be followed. If a qualitative assessment indicates that it is more-likely-than-not that the fair value of a reporting unit is greater than its carrying amount, then the quantitative impairment test is not required. A company may choose to use the qualitative assessment on none, some, or all of its reporting units or to bypass the qualitative assessment and proceed directly to the two-step quantitative testing method. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011; however, early adoption is permitted. The adoption of this guidance on January 1, 2012 did not have a material impact on our consolidated financial statements.

Item 3. Quantitative 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, 2012, 79% and 82% 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, 2012, 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 \$100 and \$300 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 \$100 and \$300 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.

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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, 2012, 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, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

In December 2011, the Company acquired FundQuest Incorporated (FundQuest). In accordance with the rules of the Securities and Exchange Commission (the SEC), FundQuest, now known as Envestnet Portfolio Solutions, Inc. (EPS) was excluded from management's annual report on internal control over financial reporting for the fiscal year ended December 31, 2011. Beginning in the fourth quarter of 2012, management will include the internal controls of EPS in its assessment of the effectiveness of Envestnet's internal controls over financial reporting.

In April 2012, the Company acquired Prima Capital Holding, Inc. (Prima) and in May 2012, the Company acquired Tamarac, Inc. (Tamarac). In accordance with the rules of the SEC, management will include the internal controls of Prima and Tamarac in its assessment of the effectiveness of Envestnet's internal controls over financial reporting beginning in the fourth quarter of 2012.

Table of Contents**PART 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 2011 Form 10-K filed, when making investment decisions regarding our securities. The risk factors that were disclosed in our 2011 Form 10-K have not materially changed since the date our 2011 Form 10-K.

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

None.

(c) Issuer Purchases of Equity Securities

	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs
July 1, 2012 through July 31, 2012	3,559	\$ 12.51		\$
August 1, 2012 through August 31, 2012				
September 1, 2012 through September 30, 2012				

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits

(a) *Exhibits*

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

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on November 8, 2012.

ENVESTNET, INC.

By: */s/ JUDSON BERGMAN*
Judson Bergman

Chairman and Chief Executive Officer

Principal Executive Officer

ENVESTNET, INC.

By: */s/ PETER D ARRIGO*
Peter D Arrigo

Chief Financial Officer

Principal Financial Officer

ENVESTNET, INC.

By: */s/ DALE SEIER*
Dale Seier

Senior Vice President, Finance

Principal Accounting Officer

Table of Contents**INDEX TO EXHIBITS**

Exhibit No.	Description
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 ⁽¹⁾	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 ⁽¹⁾	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 *

⁽¹⁾ 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, 2012 and December 31, 2011; (ii) the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2012 and 2011; (iii) the Condensed Consolidated Statements of Stockholders' Equity for the nine months ended September 30, 2012; (iv) the Condensed Consolidated Statements of Cash Flow for the nine months ended September 30, 2012 and 2011; (v) Notes to the Condensed Consolidated Financial Statements.

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.