# 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 June 30, 2013**

**o 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)

| | |
|---|---|
| **Delaware** | **20-1409613** |
| (State or other jurisdiction of | (I.R.S Employer |
| incorporation or organization) | Identification No.) |
| **35 East Wacker Drive, Suite 2400, Chicago, IL** | **60601** |
| (Address of principal executive offices) | (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 x No o

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

Indicate by check mark 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 o | Accelerated filer x |
| Non-accelerated filer o | Smaller reporting company o |

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

As of August 2, 2013, 33,407,311 shares of the common stock with a par value of $0.005 per share were outstanding.

Table of Contents

## TABLE OF CONTENTS

Table of Contents

**Envestnet, Inc.**

**Condensed Consolidated Balance Sheets**

**(In thousands, except share information)**

**(Unaudited)**

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 39,679 | $ 29,983 |
| Fees receivable | 12,800 | 9,188 |
| Deferred tax assets, net | 2,833 | 2,089 |
| Prepaid expenses and other current assets | 4,220 | 2,501 |
| Total current assets | 59,532 | 43,761 |
| | | |
| Property and equipment, net | 11,211 | 11,791 |
| Internally developed software, net | 4,998 | 4,324 |
| Intangible assets, net | 23,998 | 27,150 |
| Goodwill | 65,644 | 65,644 |
| Deferred tax assets, net | 6,544 | 6,194 |
| Other non-current assets | 4,103 | 3,535 |
| Total assets | $ 176,030 | $ 162,399 |
| | | |
| **Liabilities and Stockholders Equity** | | |
| Current liabilities: | | |
| Accrued expenses | $ 23,691 | $ 20,201 |
| Accounts payable | 4,103 | 2,614 |
| Deferred revenue | 5,848 | 5,768 |
| Total current liabilities | 33,642 | 28,583 |
| | | |
| Deferred rent liability | 2,414 | 2,195 |
| Lease incentive liability | 3,619 | 3,886 |
| Other non-current liabilities | 1,748 | 1,739 |
| Total liabilities | 41,423 | 36,403 |
| | | |
| Commitments and contingencies | | |
| | | |
| Stockholders equity | | |
| Preferred stock | | |
| Common stock, par value $0.005, 500,000,000 shares authorized; 45,147,083 and 44,071,564 shares issued as of June 30, 2013 and December 31, 2012, respectively; 33,395,377 and 32,355,675 shares outstanding as of June 30, 2013 and December 31, 2012, respectively | 226 | 220 |
| Additional paid-in capital | 181,143 | 173,611 |
| Accumulated deficit | (35,618) | (37,277) |
| Treasury stock at cost, 11,751,706 and 11,715,889 shares as of June 30, 2013 and December 31, 2012, respectively | (11,144) | (10,558) |
| Total stockholders equity | 134,607 | 125,996 |
| Total liabilities and stockholders equity | $ 176,030 | $ 162,399 |

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

Table of Contents

**Envestnet, Inc.**

**Condensed Consolidated Statements of Operations**

**(In thousands, except share and per share information)**

**(Unaudited)**

| | Three Months Ended June 30, 2013 | Three Months Ended June 30, 2012 | Six Months Ended June 30, 2013 | Six Months Ended June 30, 2012 |
|---|---|---|---|---|
| Revenues: | | | | |
| Assets under management or administration | $ 41,234 | $ 31,012 | $ 77,570 | $ 59,275 |
| Licensing and professional services | 10,398 | 6,950 | 20,687 | 11,329 |
| Total revenues | 51,632 | 37,962 | 98,257 | 70,604 |
| | | | | |
| Operating expenses: | | | | |
| Cost of revenues | 19,638 | 13,549 | 36,446 | 25,075 |
| Compensation and benefits | 17,194 | 14,085 | 34,412 | 24,770 |
| General and administration | 9,962 | 8,148 | 18,855 | 14,921 |
| Depreciation and amortization | 3,081 | 3,224 | 6,199 | 5,623 |
| Restructuring charges | | 88 | | 115 |
| Total operating expenses | 49,875 | 39,094 | 95,912 | 70,504 |
| | | | | |
| Income (loss) from operations | 1,757 | (1,132) | 2,345 | 100 |
| | | | | |
| Other income (expense): | | | | |
| Interest income | 4 | 14 | 9 | 23 |
| Interest expense | | | | (3) |
| Other income | 182 | | 182 | |
| Total other income (expense) | 186 | 14 | 191 | 20 |
| | | | | |
| Income (loss) before income tax provision (benefit) | 1,943 | (1,118) | 2,536 | 120 |
| | | | | |
| Income tax provision (benefit) | 825 | (450) | 877 | 48 |
| | | | | |
| Net income (loss) | $ 1,118 | $ (668) | $ 1,659 | $ 72 |
| | | | | |
| Net income (loss) per share: | | | | |
| Basic | $ 0.03 | $ (0.02) | $ 0.05 | $ 0.00 |
| | | | | |
| Diluted | $ 0.03 | $ (0.02) | $ 0.05 | $ 0.00 |
| | | | | |
| Weighted average common shares outstanding: | | | | |
| Basic | 32,661,196 | 32,149,957 | 32,518,943 | 32,004,386 |
| | | | | |
| Diluted | 35,164,106 | 32,149,957 | 34,760,568 | 33,054,632 |

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

4

Table of Contents

**Envestnet, Inc.**

**Condensed Consolidated Statement of Stockholders Equity**

**(In thousands, except share information)**

**(Unaudited)**

| | Common Stock Shares | Common Stock Amount | Treasury Stock Common Shares | Treasury Stock Amount | Additional Paid-in Capital | Accumulated deficit | Total Stockholders Equity |
|---|---|---|---|---|---|---|---|
| Balance, December 31, 2012 | 44,071,564 | $ 220 | (11,715,889) | $ (10,558) | $ 173,611 | $ (37,277) | $ 125,996 |
| Exercise of stock options | 242,653 | 1 | | | 2,203 | | 2,204 |
| Issuance of common stock - Vesting of restricted stock | 70,964 | 1 | | | | | 1 |
| Exercise of warrants | 761,902 | 4 | | | | | 4 |
| Stock-based compensation | | | | | 4,266 | | 4,266 |
| Tax benefit attributable to exercise of stock options | | | | | 1,047 | | 1,047 |
| Reversal of state uncertain tax position | | | | | 16 | | 16 |
| Purchase of treasury stock (at cost) | | | (35,817) | (586) | | | (586) |
| Net income | | | | | | 1,659 | 1,659 |
| Balance, June 30, 2013 | 45,147,083 | $ 226 | (11,751,706) | $ (11,144) | $ 181,143 | $ (35,618) | $ 134,607 |

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

Table of Contents

**Envestnet, Inc.**

**Condensed Consolidated Statements of Cash Flows**

**(In thousands)**

**(Unaudited)**

| | Six Months Ended June 30, 2013 | Six Months Ended June 30, 2012 |
|---|---|---|
| **OPERATING ACTIVITIES:** | | |
| Net income | $ 1,659 | $ 72 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 6,199 | 5,623 |
| Deferred rent and lease incentive | (48) | 1,362 |
| Provision for doubtful accounts | 60 | |
| Deferred income taxes | (1,094) | (432) |
| Stock-based compensation | 4,266 | 1,930 |
| Excess tax benefits from stock-based compensation | (1,047) | |
| Interest expense | | 3 |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| Fees receivable | (3,672) | 1,574 |
| Prepaid expenses and other current assets | (672) | (1,016) |
| Other non-current assets | (568) | 70 |
| Accrued expenses | 3,490 | (616) |
| Accounts payable | 1,489 | 709 |
| Deferred revenue | 80 | 474 |
| Other non-current liabilities | 25 | 116 |
| Net cash provided by operating activities | 10,167 | 9,869 |
| **INVESTING ACTIVITIES:** | | |
| Purchase of property and equipment | (1,638) | (2,999) |
| Capitalization of internally developed software | (1,503) | (988) |
| Repayment of notes payable assumed in acquisition | | (174) |
| Acquisition of businesses, net of cash acquired | | (61,463) |
| Net cash used in investing activities | (3,141) | (65,624) |
| **FINANCING ACTIVITIES:** | | |
| Proceeds from exercise of warrants | 4 | |
| Proceeds from exercise of stock options | 2,204 | 1,565 |
| Issuance of restricted stock | 1 | 2,759 |
| Excess tax benefits from stock-based compensation | 1,047 | |
| Purchase of treasury stock | (586) | (78) |
| Net cash provided by financing activities | 2,670 | 4,246 |
| **INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | 9,696 | (51,509) |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD** | 29,983 | 64,909 |
| **CASH AND CASH EQUIVALENTS, END OF PERIOD** | $ 39,679 | $ 13,400 |

| | | | | |
|---|---|---|---|---|
| Supplemental disclosure of cash flow information: | | | | |
| Cash paid during the period for income taxes, net of refunds | $ | 2,955 | $ | 325 |

*See accompanying notes to 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)**

## 1. Organization and Description of Business

Envestnet, Inc. ( Envestnet ) and its subsidiaries (collectively, the Company ) provides open-architecture wealth management services and technology to independent financial advisors and financial institutions. These services and related technology are provided via the Envestnet Advisor Suite®, Envestnet | PMC®, Envestnet | Vantage®, and Envestnet | TamaracTM.

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

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

Envestnet | Tamarac provides leading portfolio accounting, rebalancing, trading, performance reporting and client relationship management software, principally to high-end Registered Investment Advisors ( RIAs ).

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 four RIAs and a registered broker-dealer. The RIAs are registered with the Securities and Exchange Commission ( SEC ). The broker-dealer is registered with the SEC, all 50 states and the District of Columbia and is a member of the Financial Industry Regulatory Authority ( FINRA ).

## 2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company as of June 30, 2013 and for the three and six months ended June 30, 2013 and 2012 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 June 30, 2013 and the results of operations, stockholders equity and cash flows for the periods presented herein. The unaudited condensed consolidated balance sheet as of December 31, 2012 was derived from the Company s audited financial statements for the year ended December 31, 2012 but does not include all disclosures, including notes required by accounting principles generally accepted in the United States of America ( GAAP ). The results of operations for the three and six months ended June 30, 2013 is 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 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, 2012.

The preparation of these unaudited condensed consolidated financial statements requires management to make estimates and assumptions related to the reporting of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these condensed consolidated financial statements in conformity with GAAP. Significant areas requiring the use of management estimates relate to estimating uncollectible receivables, revenue recognition, costs capitalized for internally developed software, valuations and assumptions used for impairment testing of goodwill, intangible and other long-lived assets, fair value of stock options issued, realization of deferred tax assets and assumptions used to allocate purchase prices in business combinations. Actual results could differ materially from these estimates under different assumptions or conditions.

Table of Contents

**Envestnet, Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**(In thousands, except share and per share amounts)**

## 3. Business Acquisitions

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

The following pro forma financial information presents the combined results of operations of Envestnet, Prima Capital Holding, Inc. ( Prima ), which was acquired on April 1, 2012, and Tamarac, Inc. ( Tamarac ), which was acquired on May 1, 2012, for the three and six months ended June 30, 2012. The pro forma financial information presents the results as if the acquisitions had occurred as of the beginning of 2012.

The unaudited pro forma results presented include amortization charges for acquired intangible assets and stock-based compensation expense, the elimination of intercompany transactions, transaction-related expenses and the related tax effect of 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 acquisitions had taken place at the beginning of the period presented.

| | Three Months ended June 30, 2012 | Six Months ended June 30, 2012 |
|---|---|---|
| Revenue | $ 39,082 | $ 76,197 |
| Net income (loss) | (957) | (1,980) |
| Net income (loss) per share: | | |
| Basic | (0.03) | (0.06) |
| Diluted | (0.03) | (0.06) |

## 4. Property and Equipment

Property and equipment consist of the following:

| | June 30, | December 31, |
|---|---|---|

| | Estimated Useful Life | 2013 | 2012 |
|---|---|---|---|
| Cost: | | | |
| Office furniture and fixtures | 5-7 years | $ 3,763 | $ 3,613 |
| Computer equipment and software | 3 years | 23,530 | 22,098 |
| Other office equipment | 5 years | 598 | 598 |
| Leasehold improvements | Shorter of the term of the lease or useful life of the asset | 7,694 | 7,638 |
| | | 35,585 | 33,947 |
| Less accumulated depreciation and amortization | | (24,374) | (22,156) |
| Property and equipment, net | | $ 11,211 | $ 11,791 |

Depreciation and amortization expense was as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Depreciation and amortization expense | $ 1,095 | $ 1,223 | $ 2,218 | $ 2,260 |

Table of Contents

**Envestnet, Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**(In thousands, except share and per share amounts)**

## 5. Internally Developed Software

Internally developed software consists of the following:

| | Estimated Useful Life | June 30, 2013 | December 31, 2012 |
|---|---|---|---|
| Internally developed software | 5 years | $ 14,734 | $ 13,232 |
| Less accumulated amortization | | (9,736) | (8,908) |
| Internally developed software, net | | $ 4,998 | $ 4,324 |

Amortization expense was as follows:

| | Three Months Ended June 30, 2013 | Three Months Ended June 30, 2012 | Six Months Ended June 30, 2013 | Six Months Ended June 30, 2012 |
|---|---|---|---|---|
| Amortization expense | $ 418 | $ 377 | $ 829 | $ 760 |

## 6. Intangible Assets

Intangible assets consist of the following:

| | | June 30, 2013 | | | December 31, 2012 | | |
|---|---|---|---|---|---|---|---|
| | Useful Life | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Customer list | 4 - 12 years | $ 28,103 | $ (11,125) | 16,978 | $ 28,103 | $ (8,720) | $ 19,383 |
| Proprietary technology | 5 - 8 years | 6,580 | (1,182) | 5,398 | 6,580 | (657) | 5,923 |
| Trade names | 5 years | 2,090 | (468) | 1,622 | 2,090 | (246) | 1,844 |
| | | $ 36,773 | $ (12,775) | $ 23,998 | $ 36,773 | $ (9,623) | $ 27,150 |

Total intangible
assets

Amortization expense was as follows:

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | | 2012 | | 2013 | | 2012 | |
| Amortization expense | $ | 1,568 | $ | 1,624 | $ | 3,152 | $ | 2,603 |

Table of Contents

**Envestnet, Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**(In thousands, except share and per share amounts)**

## 7. Other Non-Current Assets

Other non-current assets consist of the following:

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| Investment in private company | $ 1,250 | $ 1,250 |
| Deposits | | |
| Lease | 1,647 | 1,655 |
| Other | 268 | 264 |
| Other | 938 | 366 |
| Total other non-current assets | $ 4,103 | $ 3,535 |

## 8. Fair Value Measurements

Financial assets and liabilities recorded at fair value in the consolidated balance sheets are categorized based upon a fair value hierarchy established by 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: 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 Federal Deposit Insurance Corporation. 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 of the net asset value of the various money market funds. These money market funds are considered Level 1 assets, totaled approximately $28,751 and $20,682 as of June 30, 2013 and December 31, 2012, respectively, and are included in cash and cash equivalents in the condensed consolidated balance sheets.

Table of Contents

**Envestnet, Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**(In thousands, except share and per share amounts)**

## 9. Accrued Expenses

Accrued expenses consist of the following:

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| Accrued investment manager fees | $ 16,358 | $ 12,937 |
| Accrued compensation and related taxes | 5,333 | 5,726 |
| Accrued professional services | 329 | 408 |
| Other accrued expenses | 1,671 | 1,130 |
| Total accrued expenses | $ 23,691 | $ 20,201 |

## 10. Income Taxes

The following table includes income tax provision (benefit) and the effective tax rate for the Company s income from operations:

| | Three Months Ended June 30, 2013 | Three Months Ended June 30, 2012 | Six Months Ended June 30, 2013 | Six Months Ended June 30, 2012 |
|---|---|---|---|---|
| Income (loss) before income taxes | $ 1,943 | $ (1,118) | $ 2,536 | $ 120 |
| Income tax provision (benefit) | 825 | (450) | 877 | 48 |
| Effective tax rate | 42.5% | 40.3% | 34.6% | 40.0% |

The Company s effective tax rate in the three months ended June 30, 2013, was higher than the effective tax rate in the three months ended June 30, 2012, primarily due to non-deductible transaction costs. The Company s effective tax rate in the six months ended June 30, 2013, was lower than the effective tax rate in the six months ended June 30, 2012, primarily due to a change in the tax rate expected to apply to taxable income when deferred income taxes are realized.

The liability for unrecognized tax benefits reported in other non-current liabilities was $1,688 and $1,739 at June 30, 2013 and December 31, 2012, respectively. At June 30, 2013, the amount of unrecognized tax benefits that would benefit the Company s effective tax rate, if recognized, was $522. At this time, the Company estimates it is reasonably possible that the liability for unrecognized tax benefits will decrease by as much as $400 in the next twelve months due to the completion of reviews by tax authorities, the voluntary filing of certain state income tax returns and the expiration of certain statutes of limitations.

The Company recognizes potential interest and penalties related to unrecognized tax benefits in income tax expense. The Company had accrued interest and penalties of $645 and $642 as of June 30, 2013 and December 31, 2012, respectively.

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 remain open to examination by the Internal Revenue Service in their entirety. With respect to state taxing jurisdictions, the Company s tax returns for the fiscal year ended March 31, 2009, as well as calendar years ended December 31, 2011, 2010 and 2009 remain open to examination by various state revenue services.

The Company s India subsidiary is currently under examination by the India Taxing Authority for the fiscal years ended March 31, 2009 and March 31, 2010. Based on the outcome of examinations of the Company s subsidiary or the result of the expiration of statutes of limitations, it is reasonably possible that the related unrecognized tax benefits could change from those recorded in the condensed consolidated balance sheets. It is possible that one or more of these audits may be finalized within the next twelve months. The Company s subsidiary s tax returns for the fiscal years ended March 31, 2007 through March 31, 2012 remain open to examination by the India Taxing Authority in their entirety.

Table of Contents

**Envestnet, Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**(In thousands, except share and per share amounts)**

## 11. Stockholders Equity

In February 2010, in connection with a Platform Services Agreement between the Company and FundQuest Incorporated ( FundQuest ), a subsidiary of BNP Paribas Investment Partners USA Holdings, Inc., the Company issued to FundQuest a warrant to purchase 1,388,888 shares of the Company s common stock, with an exercise price of $10.80 per share. During 2011, the warrant was sold by FundQuest to a third party. On June 24, 2013, the third party exercised the warrant via a cashless exercise, and as a result, the Company issued 761,902 shares of the Company s common stock to the third party.

## 12. Stock-Based Compensation

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 of June 30, 2013, the maximum number of stock options and restricted stock available for future issuance under the Company s plans is 1,309,379.

Employee stock-based compensation expense under the Company s plans was as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Employee stock-based compensation expense | $ 1,960 | $ 1,135 | $ 4,266 | $ 1,930 |
| Tax effect on employee stock-based compensation expense | (832) | (456) | (1,475) | (777) |
| Net effect on income | $ 1,128 | $ 679 | $ 2,791 | $ 1,153 |

*Stock Options*

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

| | Three Months Ended June 30, 2013 | Three Months Ended June 30, 2012 | Six Months Ended June 30, 2013 | Six Months Ended June 30, 2012 |
|---|---|---|---|---|
| Grant date fair value of options | $ | $ 4.97 | $ 6.11 | $ 4.91 |
| Volatility | | 39.7% | 40.4% | 39.7% |
| Risk-free interest rate | | 1.2% | 1.0% | 1.2% |
| Dividend yield | | 0.0% | 0.0% | 0.0% |
| Expected term (in years) | | 6.0 | 6.0 | 6.0 |

Table of Contents

**Envestnet, Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**(In thousands, except share and per share amounts)**

The following table summarizes option activity under the Company s plans:

| | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding as of December 31, 2012 | 5,277,412 | $ 8.86 | | |
| Granted | 190,413 | 15.34 | | |
| Exercised | (9,050) | 6.24 | | |
| Forfeited | (8,050) | 11.91 | | |
| Outstanding as of March 31, 2013 | 5,450,725 | 9.08 | 6.2 | $ 45,939 |
| Granted | | | | |
| Exercised | (233,603) | 9.13 | | |
| Forfeited | (31,815) | 12.41 | | |
| Outstanding as of June 30, 2013 | 5,185,307 | 9.06 | 6.0 | $ 80,583 |
| Options exercisable | 3,440,826 | 8.04 | 4.9 | $ 56,991 |

Exercise prices of stock options outstanding as of June 30, 2013 range from $0.11 to $15.34.

*Restricted Stock*

Periodically, the Company grants restricted stock awards to employees that vest one-third on each of the first three anniversaries of the grant date. The following is a summary of the activity for unvested restricted stock awards granted under the Company s plans:

| | Number of Shares | Weighted-Average Grant Date Fair Value per Share |
|---|---|---|
| Balance at December 31, 2012 | 758,990 | $ 12.49 |
| Granted | 172,212 | 15.34 |
| Vested | (70,964) | |
| Forfeited | (3,197) | 13.78 |
| Balance at March 31, 2013 | 857,041 | 13.07 |
| Granted | 105,858 | 18.29 |
| Forfeited | (152,653) | 12.54 |
| Balance at June 30, 2013 | 810,246 | 14.51 |

At June 30, 2013, there was $4,823 of unrecognized compensation expense related to unvested stock options, which the Company expects to recognize over a weighted-average period of 1.4 years. At June 30, 2013, there was $3,356 of unrecognized compensation expense related to unvested restricted stock awards, which the Company expects to recognize over a weighted-average period of 2.4 years. At June 30, 2013, there was an additional $4,832 of potential unrecognized stock compensation expense related to unvested restricted stock granted under the 2012 Plan that vest based upon Tamarac meeting certain performance conditions and then a subsequent two-year service condition, which the Company expects to recognize over the remaining estimated vesting period of 1.75 to 3.75 years.

Table of Contents

**Envestnet, Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**(In thousands, except share and per share amounts)**

On March 31, 2013, 181,625 shares of restricted stock became performance vested under the first year performance condition. These shares will become fully vested upon employees meeting the subsequent two-year service condition.

On April 11, 2013, the Company amended the 2012 Plan. The purpose of the amendment was to amend the methodology for determining the vesting requirements of performance awards granted under the 2012 Plan, as well as to grant awards to additional Envestnet | Tamarac employees eligible to participate in the 2012 Plan. The amendment to the 2012 Plan was treated as a modification. As a result, 113,249 performance awards were valued as of the date of the modification. Concurrent with the amendment, 103,521 performance awards were voluntarily forfeited by certain participants in the 2012 Plan and immediately reallocated to other participants in the 2012 Plan.

**13. Earnings Per Share**

Basic net income per common share is computed by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding for the period. For the calculation of diluted earnings per share, the basic weighted average number of shares is increased by the dilutive effect of stock options, common warrants and restricted stock using the treasury stock method.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Net income (loss) | $ 1,118 | $ (668) | $ 1,659 | $ 72 |
| Basic number of weighted-average shares outstanding | 32,661,196 | 32,149,957 | 32,518,943 | 32,004,386 |
| Effect of dilutive shares: | | | | |
| Options to purchase common stock | 1,805,969 | | 1,605,065 | 900,085 |
| Common warrants | 609,489 | | 523,020 | 144,076 |
| Unvested restricted stock | 87,452 | | 113,540 | 6,085 |
| Diluted number of weighted-average shares outstanding | 35,164,106 | 32,149,957 | 34,760,568 | 33,054,632 |
| | | | | |
| Net income (loss) per share: | | | | |
| Basic | $ 0.03 | $ (0.02) | $ 0.05 | $ 0.00 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Diluted | $ | 0.03 | $ | (0.02) | $ | 0.05 | $ | 0.00 |

Table of Contents

**Envestnet, Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**(In thousands, except share and per share amounts)**

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

| | Three Months Ended June 30, 2013 | Three Months Ended June 30, 2012 | Six Months Ended June 30, 2013 | Six Months Ended June 30, 2012 |
|---|---|---|---|---|
| Options to purchase common stock | | 5,374,040 | | 1,227,248 |
| Common warrants | | 1,388,888 | | |
| Unvested restricted stock | 348,139 | 765,970 | 348,139 | 755,970 |

**14. Major Customers**

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

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| Fidelity | 10% | 11% |

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

| | Three Months Ended June 30, 2013 | Three Months Ended June 30, 2012 | Six Months Ended June 30, 2013 | Six Months Ended June 30, 2012 |
|---|---|---|---|---|
| Fidelity | 23% | 22% | 22% | 23% |

**15. Commitments and Contingencies**

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

The Company includes various types of indemnification and guarantee clauses in certain arrangements. These indemnifications and guarantees may include, but are not limited to, infringement claims related to intellectual property, direct or consequential damages and guarantees to certain service providers. The type and amount of any potential indemnification or guarantee varies substantially based on the nature of each arrangement. The Company has experienced no previous claims and cannot determine the maximum amount of potential future payments, if any, related to such indemnification and guarantee provisions. The Company believes that it is unlikely it will have to make material payments under these arrangements and therefore has not recorded a contingent liability in the consolidated balance sheets.

Table of Contents

The Company rents office space under leases that expire at various dates through 2024.  Future minimum lease commitments under these operating leases, as of June 30, 2013, was as follows:

| | | |
|---|---|---|
| Years ending December 31: | | |
| Remainder of 2013 | $ | 2,381 |
| 2014 | | 4,885 |
| 2015 | | 4,761 |
| 2016 | | 4,972 |
| 2017 | | 4,582 |
| Thereafter | | 21,826 |
| | $ | 43,407 |

**16. Subsequent Events**

***Acquisition of Wealth Management Solutions***

On July 1, 2013, the Company completed the acquisition of the Wealth Management Solutions ( WMS ) division of Prudential Investments.  In accordance with the purchase agreement, the Company acquired substantially all of the assets of WMS for approximately $9,500 in cash, subject to certain post-closing adjustments of which the Company is still in the process of completing, plus contingent consideration of up to a total of $23,000 in cash, based upon meeting certain performance targets, to be paid over three years. WMS is a provider of technology solutions that enables financial services firms to develop and enhance their wealth management offerings.

The Company is currently in the initial phase of gathering financial information and has not determined the estimated fair values of the assets acquired and liabilities assumed.

For the three and six months ended June 30, 2013, acquisition costs for WMS totaled $552 and $647, respectively, and are included in general and administration expenses. The Company will incur additional WMS related acquisition costs during the second half of 2013.

***Lease Termination***

On July 26, 2013, the Company exercised its right to early terminate the Denver, Colorado office lease in accordance with the provisions of the lease.  The total estimated termination fee is $1,100, of which approximately 50% of this termination fee was paid on July 26, 2013.  The remainder of the fee is due in July 2014. The impact of this early termination has been reflected in the lease commitment table in note 15.

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.*

***Unless otherwise indicated, 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 variations of such words, and similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our business and other characteristics of future events or circumstances are forward-looking statements. Forward-looking statements may include, among others, statements relating to:*

- *difficulty in sustaining rapid revenue growth, which may place significant demands on the Company s administrative, operational and financial resources,*

- *fluctuations in the Company s revenue,*

- *the concentration of nearly all of the Company s revenues from the delivery of investment solutions and services to clients in the financial advisory industry,*

- *the Company s reliance on a limited number of clients for a material portion of its revenue,*

- *the renegotiation of fee percentages or termination of the Company s services by its clients,*

- *the Company s ability to identify potential acquisition candidates, complete acquisitions and successfully integrate acquired companies,*

- *the impact of market and economic conditions on the Company s revenues,*

- *compliance failures,*

- *regulatory actions against the Company,*

- *the failure to protect the Company s intellectual property rights,*

- *the Company s inability to successfully execute the conversion of its clients assets from their technology platform to the Company s technology platform in a timely and accurate manner,*

- *general economic conditions, and*

- *political and regulatory conditions, as well as management s response to these factors.*

*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, 2012 (the 2012 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 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 2012 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 consolidated financial statements and the related notes included elsewhere in this quarterly report and the consolidated financial statements and related notes included in our 2012 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.*

Table of Contents

**Overview**

We are a leading provider of unified wealth management software and services to financial advisors and institutions. By integrating a wide range of investment solutions and services, our Web-based platform provides financial advisors with the flexibility to address their clients needs. As of June 30, 2013, approximately 25,000 advisors used our technology platform, supporting approximately $427 billion of assets in approximately 1.9 million investor accounts.

Envestnet empowers financial advisors to deliver fee-based advice to their clients. We work with both Independent Registered Investment Advisors ( RIAs ), as well as advisors associated with financial institutions such as broker dealers and banks. The services we offer and market to financial advisors address advisors ability to grow their practice as well as operate more efficiently the Envestnet platform spans the various elements of the wealth management process, from the initial meeting an advisor has with a prospective client to the ongoing day-to-day operations of managing an advisory practice.

Our centrally-hosted technology platform, which we refer to as having open architecture because of its flexibility, provides financial advisors with access to a series of integrated services to help them better serve their clients. These services include risk assessment and selection of investment strategies and solutions, asset allocation models, research and due diligence, portfolio construction, proposal generation and paperwork preparation, model management and account rebalancing, account monitoring, customized fee billing, overlay services covering asset allocation, tax management and socially responsible investing, aggregated multi-custodian performance reporting and communication tools, as well as access to a wide range of leading third-party asset custodians.

We offer these solutions principally through the following product and services suites:

- Envestnet s wealth management software empowers advisors to better manage client outcomes and strengthen their practice. Our software unifies the applications and services advisors use to manage their practice and advise their clients, including financial planning; capital markets assumptions; asset allocation guidance; research and due diligence on investment managers and funds; portfolio management, trading and rebalancing; multi-custodial, aggregated performance reporting; and billing calculation and administration.

- Our Portfolio Management Consultants group ( Envestnet | PMC ®) primarily engages in consulting services aimed at providing financial advisors with additional support in addressing their clients needs, as well as the creation of proprietary investment solutions and products. Envestnet | PMC s investment solutions and products include managed account and multi-manager portfolios, mutual fund portfolios and ETF portfolios. Envestnet | PMC also offers Prima Premium Research, comprising institutional-quality research and due diligence on investment managers, mutual funds, ETFs and liquid alternatives funds.

- Envestnet | Tamarac provides leading portfolio accounting, rebalancing, trading, performance reporting and client relationship management software, principally to high-end RIAs.

• Envestnet Reporting Solutions software aggregates and manages investment data, provides performance reporting and benchmarking, giving advisors an in-depth view of clients various investments, empowering advisors to give holistic, personalized advice.

***Operational Highlights***

Revenues from assets under management ( AUM ) or assets under administration ( AUA ) increased 33% from $31,012 in the three months ended June 30, 2012 to $41,234 in the three months ended June 30, 2013. Total revenues, which include licensing and professional service fees, increased 36% from $37,962 in the three months ended June 30, 2012 to $51,632 in the three months ended June 30, 2013. The increase in total revenues 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 Prima and Tamarac acquisitions. Net income for the three months ended June 30, 2013 was $1,118, or $0.03 per diluted share, compared to a net loss of ($668), or ($0.02) per diluted share for the three months ended June 30, 2012.

Revenues from assets under management ( AUM ) or assets under administration ( AUA ) increased 31% from $59,275 in the six months ended June 30, 2012 to $77,570 in the six months ended June 30, 2013. Total revenues, which include licensing and professional service fees, increased 39% from $70,604 in the six months ended June 30, 2012 to $98,257 in the six months ended June 30, 2013. The increase in total revenues 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 Prima and Tamarac acquisitions. Net income for the six months ended June 30, 2013 was $1,659, or $0.05 per diluted share, compared to $72, or $0.00 per diluted share for the six months ended June 30, 2012.

Adjusted revenues for the three months ended June 30, 2013 was $51,655, an increase of 34% from $38,579 in the prior year period. Adjusted EBITDA for the three months ended June 30, 2013 was $9,305, an increase of 75% from $5,314 in the prior year period. Adjusted net income for the three months ended June 30, 2013 was $4,513, or $0.13 per diluted share, compared to adjusted net income of $2,230, or $0.07 per diluted share in the prior year period.

Table of Contents

Adjusted revenues for the six months ended June 30, 2013 was $98,417, an increase of 38% from $71,221 in the prior year period. Adjusted EBITDA for the six months ended June 30, 2013 was $17,513, an increase of 68% from $10,408 in the prior year period. Adjusted net income for the six months ended June 30, 2013 was $8,584, or $0.25 per diluted share, compared to adjusted net income of $4,431, or $0.13 per diluted share in the prior year period.

Adjusted revenues, adjusted EBITDA, adjusted net income and adjusted net income per share are non-GAAP financial measures. See Non-GAAP Financial Measures for a discussion of non-GAAP measures and a reconciliation of such measures to the most directly comparable GAAP measures.

***Recent Events***

***Wealth Management Solutions Acquisition***

On July 1, 2013, we completed the acquisition of the Wealth Management Solutions ( WMS ) division of Prudential Investments. In accordance with the purchase agreement, the Company acquired substantially all of the assets of WMS for approximately $9,500 in cash, subject to certain post-closing adjustments, plus contingent consideration of up to a total of $23,000 in cash, based upon meeting certain performance targets, to be paid over three years. WMS is a provider of technology solutions that enables financial services firms to develop and enhance their wealth management offerings.

***Lease Termination***

On July 26, 2013, we exercised our right to early terminate our Denver, Colorado office lease in accordance with the provisions of the lease. The total estimated termination fee is $1,100, of which approximately 50% of this termination fee was paid on July 26, 2013. The remainder of the fee is due in July 2014.

***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.

| | | | As of | | |
|---|---|---|---|---|---|
| | **June 30, 2012** | **September 30, 2012** | **December 31, 2012** | **March 31, 2013** | **June 30, 2013** |
| | | | **(in millions, except accounts and advisor data)** | | |
| **Platform Assets** | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Assets Under Management (AUM) | $ 26,758 | $ 29,232 | $ 30,970 | $ 34,870 | $ 38,705 |
| Assets Under Administration (AUA) | 60,511 | 64,229 | 67,368 | 74,839 | 85,601 |
| Subtotal AUM/A | 87,269 | 93,461 | 98,338 | 109,709 | 124,306 |
| Licensing | 229,268 | 254,256 | 269,729 | 295,330 | 302,604 |
| **Total Platform Assets** | $ 316,537 | $ 347,717 | $ 368,067 | $ 405,039 | $ 426,910 |
| | | | | | |
| **Platform Accounts** | | | | | |
| AUM | 141,695 | 148,920 | 156,327 | 167,167 | 190,883 |
| AUA | 274,322 | 278,192 | 293,151 | 311,884 | 357,283 |
| Subtotal AUM/A | 416,017 | 427,112 | 449,478 | 479,051 | 548,166 |
| Licensing | 1,138,223 | 1,170,978 | 1,228,016 | 1,289,491 | 1,365,773 |
| **Total Platform Accounts** | 1,554,240 | 1,598,090 | 1,677,494 | 1,768,542 | 1,913,939 |
| | | | | | |
| **Advisors** | | | | | |
| AUM/A | 15,045 | 15,735 | 16,085 | 16,419 | 18,154 |
| Licensing | 6,758 | 6,878 | 6,941 | 6,970 | 7,261 |
| **Total Advisors** | 21,803 | 22,613 | 23,026 | 23,389 | 25,415 |

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.

Table of Contents

| | Asset Rollforward - Three Months Ended June 30, 2013 (in millions, except account data) | | | | | |
|---|---|---|---|---|---|---|
| | As of 3/31/13 | Gross Sales | Redemptions | Net Flows | Market Impact | As of 6/30/13 |
| **Assets under Management (AUM)** | $ 34,870 | $ 6,647 | $ (2,343) | $ 4,304 | $ (469) | $ 38,705 |
| **Assets under Administration (AUA)** | 74,839 | 16,521 | (5,082) | 11,439 | (677) | 85,601 |
| **Subtotal AUM/A** | **$ 109,709** | **$ 23,168** | **$ (7,425)** | **$ 15,743** | **$ (1,146)** | **$ 124,306** |
| *Fee-Based Accounts* | *479,051* | *101,152* | *(32,037)* | *69,115* | | *548,166* |

Gross sales for the three months ended June 30, 2013 included $12.4 billion in new client conversions included in the above AUM/A gross sales figures, and an additional $12.1 billion of conversions in Licensing.

| | Asset Rollforward - Six Months Ended June 30, 2013 (in millions, except account data) | | | | | |
|---|---|---|---|---|---|---|
| | As of 12/31/12 | Gross Sales | Redemptions | Net Flows | Market Impact | As of 6/30/13 |
| **Assets under Management (AUM)** | $ 30,970 | $ 11,107 | $ (4,296) | $ 6,811 | $ 924 | $ 38,705 |
| **Assets under Administration (AUA)** | 67,368 | 24,511 | (8,435) | 16,076 | 2,157 | 85,601 |
| **Subtotal AUM/A** | **$ 98,338** | **$ 35,618** | **$ (12,731)** | **$ 22,887** | **$ 3,081** | **$ 124,306** |
| *Fee-Based Accounts* | *449,478* | *150,936* | *(52,248)* | *98,688* | | *548,166* |

Gross sales for the six months ended June 30, 2013 included $15.0 billion in new client conversions included in the above AUM/A gross sales figures, and an additional $17.4 billion of conversions in Licensing.

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

| | June 30, 2012 | September 30, 2012 | December 31, 2012 | March 31, 2013 | June 30, 2013 |
|---|---|---|---|---|---|
| **Assets under management (AUM)** | 28% | 27% | 27% | 27% | 29% |
| **Assets under administration (AUA)** | 72% | 73% | 73% | 73% | 71% |
| | 100% | 100% | 100% | 100% | 100% |

Table of Contents

**Results of Operations**

***Three months ended June 30, 2013 compared to three months ended June 30, 2012***

| | Three Months Ended June 30, 2013 | 2012 | Increase (Decrease) Amount | % |
|---|---|---|---|---|
| | (In thousands) | | | |
| Revenues: | | | | |
| Assets under management or administration | $ 41,234 | $ 31,012 | $ 10,222 | 33% |
| Licensing and professional services | 10,398 | 6,950 | 3,448 | 50% |
| Total revenues | 51,632 | 37,962 | 13,670 | 36% |
| | | | | |
| Operating expenses: | | | | |
| Cost of revenues | 19,638 | 13,549 | 6,089 | 45% |
| Compensation and benefits | 17,194 | 14,085 | 3,109 | 22% |
| General and administration | 9,962 | 8,148 | 1,814 | 22% |
| Depreciation and amortization | 3,081 | 3,224 | (143) | -4% |
| Restructuring charges | | 88 | (88) | * |
| Total operating expenses | 49,875 | 39,094 | 10,781 | 28% |
| Income (loss) from operations | 1,757 | (1,132) | 2,889 | -255% |
| Other income (expense): | | | | |
| Interest income | 4 | 14 | (10) | -71% |
| Other income | 182 | | 182 | * |
| Total other income (expense) | 186 | 14 | 172 | * |
| Income (loss) before income tax provision (benefit) | 1,943 | (1,118) | 3,061 | -274% |
| Income tax provision (benefit) | 825 | (450) | 1,275 | -283% |
| Net income (loss) | $ 1,118 | $ (668) | $ 1,786 | -267% |

* Not meaningful.

***Revenues***

Total revenues increased 36% from $37,962 in the three months ended June 30, 2012 to $51,632 in the three months ended June 30, 2013. The increase was primarily due to an increase in revenues from assets under management or assets under administration of $10,222. Revenues from assets under management or administration were 80% and 82% of total revenues in the three months ended June 30, 2013 and 2012, respectively.

***Assets under management or administration***

Revenues earned from assets under management or assets under administration increased 33% from $31,012 in the three months ended June 30, 2012 to $41,234 in the three months ended June 30, 2013. The increase was primarily due to an increase in asset values applicable to our quarterly billing cycle in 2013, relative to the corresponding period in 2012. In the second quarter of 2013, revenues were positively affected by new account growth and positive net flows of AUM or AUA during 2012 and the first quarter of 2013.

The number of financial advisors with AUM or AUA on our technology platform increased from 15,045 as of June 30, 2012 to 18,154 as of June 30, 2013 and the number of AUM or AUA client accounts increased from approximately 416,000 as of June 30, 2012 to approximately 548,000 as of June 30, 2013.

***Licensing and professional services***

Licensing and professional services revenues increased 50% from $6,950 in the three months ended June 30, 2012 to $10,398 in the three months ended June 30, 2013, primarily due to an increase in licensing revenue of $3,284 and an increase in professional services revenue of $171. The increase in licensing revenue was primarily a result of the acquisition of Tamarac that closed in the second quarter of 2012.

Table of Contents

***Cost of revenues***

Cost of revenues increased 45% from $13,549 in the three months ended June 30, 2012 to $19,638 in the three months ended June 30, 2013, primarily due to a corresponding increase in revenues from AUM or AUA. As a percentage of total revenues, cost of revenues increased from 36% in the three months ended June 30, 2012 to 38% in the three months ended June 30, 2013.

***Compensation and benefits***

Compensation and benefits increased 22% from $14,085 in the three months ended June 30, 2012 to $17,194 in the three months ended June 30, 2013, primarily due to an increase in salaries, benefits and commission expense of $2,042 related to an increase in headcount, primarily a result of an increase in headcount associated with the Tamarac acquisition in the second quarter of 2012, and an increase in non-cash compensation expense of $825, primarily related to Tamarac meeting certain performance metrics related to the Envestnet | Tamarac Management Incentive Plan (the 2012 Plan ) as well, as the accounting impact of a modification to the 2012 Plan in April of 2013. As a percentage of total revenues, compensation and benefits decreased from 37% in the three months ended June 30, 2012 to 33% in the three months ended June 30, 2013.

***General and administration***

General and administration expenses increased 22% from $8,148 in the three months ended June 30, 2012 to $9,962 in the three months ended June 30, 2013, primarily due to one-time re-audit related expenses of $1,554, and year over year increases in website and systems development costs of $258, occupancy costs of $142 and communication, research and data services costs of $409, partially offset by a decrease in transaction related costs of $561. As a percentage of total revenues, general and administration expenses decreased from 21% in the three months ended June 30, 2012 to 19% in the three months ended June 30, 2013. Excluding re-audit related expenses of $1,554, general and administration expenses as a percentage of total revenues would have been 16% in the three months ended June 30, 2013.

***Depreciation and amortization***

Depreciation and amortization expense decreased 4% from $3,224 in the three months ended June 30, 2012 to $3,081 in the three months ended June 30, 2013, primarily due to a decrease in intangible asset amortization and property and equipment depreciation, partially offset by an increase in internally developed software amortization. As a percentage of total revenues, depreciation and amortization expense decrease from 8% in the three months ended June 30, 2012 to 6% in the three months ended June 30, 2013.

***Income tax provision***

| | Three Months Ended |
|---|---|

| | June 30, 2013 | June 30, 2012 |
|---|---|---|
| | (in thousands) | |
| Income tax provision (benefit) | $ 825 | $ (450) |
| Effective tax rate | 42.5% | 40.3% |

For the three months ended June 30, 2013, our effective tax rate differs from the statutory rate primarily due to the effect of state taxes, permanent differences, including non-deductible transaction costs. For the three months June 30, 2012, our effective tax rate differs from the statutory rate primarily due to the effect of state taxes and permanent differences.

Table of Contents

**Results of Operations**

***Six months ended June 30, 2013 compared to six months ended June 30, 2012***

| | Six Months Ended June 30, 2013 | 2012 | Increase (Decrease) Amount | % |
|---|---|---|---|---|
| | | (In thousands) | | |
| Revenues: | | | | |
| Assets under management or administration | $ 77,570 | $ 59,275 | $ 18,295 | 31% |
| Licensing and professional services | 20,687 | 11,329 | 9,358 | 83% |
| Total revenues | 98,257 | 70,604 | 27,653 | 39% |
| | | | | |
| Operating expenses: | | | | |
| Cost of revenues | 36,446 | 25,075 | 11,371 | 45% |
| Compensation and benefits | 34,412 | 24,770 | 9,642 | 39% |
| General and administration | 18,855 | 14,921 | 3,934 | 26% |
| Depreciation and amortization | 6,199 | 5,623 | 576 | 10% |
| Restructuring charges | | 115 | (115) | * |
| Total operating expenses | 95,912 | 70,504 | 25,408 | 36% |
| Income from operations | 2,345 | 100 | 2,245 | * |
| Other income (expense): | | | | |
| Interest income | 9 | 23 | (14) | -61% |
| Interest expense | | (3) | | * |
| Other income | 182 | | 182 | * |
| Total other income (expense) | 191 | 20 | 168 | * |
| Income before income tax provision | 2,536 | 120 | 2,413 | * |
| Income tax provision | 877 | 48 | 829 | * |
| Net income | $ 1,659 | $ 72 | $ 1,584 | * |

* Not meaningful.

***Revenues***

Total revenues increased 39% from $70,604 in the six months ended June 30, 2012 to $98,257 in the six months ended June 30, 2013. The increase was primarily due to an increase in revenues from assets under management or assets under administration of $18,295. Revenues from assets under management or administration were 79% and 84% of total revenues in the six months ended June 30, 2013 and 2012, respectively.

***Assets under management or administration***

Revenues earned from assets under management or assets under administration increased 31% from $59,275 in the six months ended June 30, 2012 to $77,570 in the six months ended June 30, 2013. The increase was primarily due to an increase in asset values applicable to our quarterly billing cycles in 2013, relative to the corresponding period in 2012. In 2013, revenues were positively affected by new account growth and positive net flows of AUM or AUA during 2012 and the first quarter of 2013.

The number of financial advisors with AUM or AUA on our technology platform increased from 15,045 as of June 30, 2012 to 18,154 as of June 30, 2013 and the number of AUM or AUA client accounts increased from approximately 416,000 as of June 30, 2012 to approximately 548,000 as of June 30, 2013.

***Licensing and professional services***

Licensing and professional services revenues increased 83% from $11,329 in the six months ended June 30, 2012 to $20,687 in the six months ended June 30, 2013, primarily due to an increase in licensing revenue of $8,847 and an increase in professional services revenue of $519. The increase in licensing revenue was primarily a result of the acquisitions of Prima and Tamarac that closed in the second quarter of 2012.

Table of Contents

*Cost of revenues*

Cost of revenues increased 45% from $25,075 in the six months ended June 30, 2012 to $36,446 in the six months ended June 30, 2013, primarily due to a corresponding increase in revenues from AUM or AUA. As a percentage of total revenues, cost of revenues increased from 36% in the six months ended June 30, 2012 to 37% in the six months ended June 30, 2013.

*Compensation and benefits*

Compensation and benefits increased 39% from $24,770 in the six months ended June 30, 2012 to $34,412 in the six months ended June 30, 2013, primarily due to an increase in salaries, benefits and commission expense of $6,170 related to an increase in headcount, primarily a result of an increase in headcount associated with the Prima and Tamarac acquisitions in the second quarter of 2012, an increase in incentive compensation of $937 and an increase in non-cash compensation expense of $2,517, primarily related to Tamarac meeting certain performance metrics related to the 2012 Plan as well, as the accounting impact of a modification to the 2012 Plan in April of 2013.  As a percentage of total revenues, compensation and benefits remained flat at 35% in the six months ended June 30, 2012 and 2013.

*General and administration*

General and administration expenses increased 26% from $14,921 in the six months ended June 30, 2012 to $18,885 in the six months ended June 30, 2013, primarily due to one-time re-audit related expenses of $2,887, and year over year increases in website and systems development costs of $591, occupancy costs of $417 and communication, research and data services costs of $660, partially offset by a decrease in transaction related costs of $828. As a percentage of total revenues, general and administration expenses decreased from 21% in the six months ended June 30, 2012 to 19% in the six months ended June 30, 2013. Excluding re-audit related expenses of $2,887, general and administration expenses as a percentage of total revenues would have been 16% in the six months ended June 30, 2013.

*Depreciation and amortization*

Depreciation and amortization expense increased 10% from $5,623 in the six months ended June 30, 2012 to $6,199 in the six months ended June 30, 2013, primarily due to an increase in intangible asset amortization of $549 as a result of intangible assets recorded in purchase accounting related to the Prima and Tamarac acquisitions in 2012. As a percentage of total revenues, depreciation and amortization expense decreased from 8% in the three months ended June 30, 2012 to 6% in the three months ended June 30, 2013.

*Income tax provision*

| | Six Months Ended |
|---|---|

| | June 30, 2013 | June 30, 2012 |
|---|---|---|
| | (in thousands) | |
| Income tax provision | $ 877 | $ 48 |
| Effective tax rate | 34.6% | 40.0% |

For the six months ended June 30, 2013, our effective tax rate differs from the statutory rate primarily due to the effect of state taxes, permanent differences, anticipated recognition of previously unrecognized tax benefits, and a change in the tax rate expected to apply to taxable income when deferred income taxes are realized. For the six months June 30, 2012, our effective tax rate differs from the statutory rate primarily due to the effect of state taxes and permanent differences.

Table of Contents

**Non-GAAP Financial Measures**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | (in thousands) | | | |
| Adjusted revenue | $ 51,655 | $ 38,579 | $ 98,417 | $ 71,221 |
| Adjusted EBITDA | 9,305 | 5,314 | 17,513 | 10,408 |
| Adjusted net income | 4,513 | 2,230 | 8,584 | 4,431 |
| Adjusted net income per share | 0.13 | 0.07 | 0.25 | 0.13 |

Adjusted revenues excludes the effect of purchase accounting on the fair value of acquired deferred revenue. Under 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 deferred revenue fair value adjustment, interest income, interest expense, income tax provision (benefit), depreciation and amortization, non-cash compensation expense, restructuring charges and transaction costs, re-audit related expenses, severance and litigation-related expense.

Adjusted net income represents net income before deferred revenue fair value adjustment, non-cash compensation expense, restructuring charges and transaction costs, re-audit related expenses, severance, amortization of acquired intangibles 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 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 acquired intangible assets, re-audit related expenses, 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 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 revenues, 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 GAAP and should not be considered as an alternative to net income, or any other performance measures derived in accordance with GAAP, or as an alternative to cash flows from operating activities as a measure of our profitability or liquidity.

Table of Contents

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 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 2013 and 2012, we had cash income tax payments of $2,955 and $325 in the six months ended June 30, 2013 and 2012, 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 GAAP and reconciliation of adjusted revenues to revenues, adjusted EBITDA, adjusted net income and adjusted net income per share to net income and net income per share, the most directly comparable GAAP measures. Further, our management also reviews GAAP measures and evaluates individual measures that are not included in some or all of our non-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:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | (in thousands) | | | |
| Revenue | $ 51,632 | $ 37,962 | $ 98,257 | $ 70,604 |
| Deferred revenue fair value adjustment | 23 | 617 | 160 | 617 |
| Adjusted revenue | $ 51,655 | $ 38,579 | $ 98,417 | $ 71,221 |

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

Table of Contents

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | (in thousands) | | | |
| Net income (loss) | $ 1,118 | $ (668) | $ 1,659 | $ 72 |
| Add (deduct): | | | | |
| Deferred revenue fair value adjustment | 23 | 617 | 160 | 617 |
| Interest income | (4) | (14) | (9) | (23) |
| Interest expense | | | | 3 |
| Income tax provision (benefit) | 825 | (450) | 877 | 48 |
| Depreciation and amortization | 3,081 | 3,224 | 6,199 | 5,623 |
| Non-cash compensation expense | 1,960 | 1,135 | 4,447 | 1,930 |
| Restructuring charges and transaction costs | 704 | 1,353 | 1,054 | 1,997 |
| Re-audit related expenses | 1,554 | | 2,887 | |
| Severance | 44 | 78 | 232 | 83 |
| Litigation related expense | | 39 | 7 | 58 |
| Adjusted EBITDA | $ 9,305 | $ 5,314 | $ 17,513 | $ 10,408 |

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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 * | 2012 * | 2013 * | 2012 * |
| | (in thousands) | | | |
| Net income (loss) | $ 1,118 | $ (668) | $ 1,659 | $ 72 |
| Add: | | | | |
| Deferred revenue fair value adjustment | 13 | 369 | 93 | 369 |
| Non-cash compensation expense | 1,137 | 679 | 2,579 | 1,154 |
| Restructuring charges and transaction costs | 408 | 809 | 611 | 1,194 |
| Re-audit related expenses | 901 | | 1,674 | |
| Severance | 26 | 47 | 135 | 50 |
| Amortization of acquired intangibles | 910 | 971 | 1,829 | 1,557 |
| Litigation related expense | | 23 | 4 | 35 |
| Adjusted net income | 4,513 | 2,230 | 8,584 | 4,431 |
| | | | | |
| Basic number of weighted-average shares outstanding | 32,661,196 | 32,149,957 | 32,518,943 | 32,004,386 |
| Effect of dilutive shares: | | | | |
| Options to purchase common stock | 1,805,969 | 886,748 | 1,605,065 | 900,085 |
| Common warrants | 609,489 | 131,554 | 523,020 | 144,076 |
| Restricted stock | 87,452 | 5,519 | 113,540 | 6,085 |
| Diluted number of weighted-average shares outstanding | 35,164,106 | 33,173,778 | 34,760,568 | 33,054,632 |
| | | | | |
| Adjusted net income per share | $ 0.13 | $ 0.07 | $ 0.25 | $ 0.13 |

* Adjustments are tax effected using an income tax rate of 42.0% for 2013 and 40.2% for 2012.

Table of Contents

**Liquidity and Capital Resources**

As of June 30, 2013, we had total cash and cash equivalents of $39,679 compared to $29,983 as of December 31, 2012. On July 1, 2013, we completed the acquisition of WMS for approximately $9,500 in cash plus contingent consideration of up to $23,000, based upon meeting certain performance targets, to be paid out over three years. We used existing cash to fund the initial payment of $9,500 and we expect to use cash generated in the ongoing operations of our business to fund our current operations and capital expenditures in 2013.

***Cash Flows***

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

| | Six Months Ended June 30, 2013 | 2012 |
|---|---|---|
| | (In thousands) | |
| Net cash provided by operating activities | $ 10,167 | $ 9,869 |
| Net cash used in investing activities | (3,141) | (65,624) |
| Net cash provided by financing activities | 2,670 | 4,246 |
| Net increase (decrease) in cash and cash equivalents | 9,696 | (51,509) |
| Cash and cash equivalents, end of period | 39,679 | 13,400 |

***Operating Activities***

Net cash provided by operating activities for the six months ended June 30, 2013 increased by $298 compared to the same period in 2012, primarily due to an increase in net income of $1,587 offset by a decrease in non-cash adjustments, primarily non-cash stock-based compensation expense, totaling $150 and a decrease in changes in operating assets and liabilities of $1,139.

***Investing Activities***

Net cash used in investing activities for the six months ended June 30, 2013 decreased by $62,483 compared to the same period in 2012. The decrease is primarily a result of cash disbursements for the acquisition of Prima and Tamarac totaling $61,463 in 2012.

***Financing Activities***

Net cash provided by financing activities for the six months ended June 30, 2013 decreased by $1,576 compared to the same period in 2012, primarily due to a decrease in proceeds from the issuance of restricted stock of $2,758 offset by an increase in the proceeds from the exercise of stock options of $639 and an increase in excess tax benefits of $1,047.

**Critical Accounting Estimates**

There have been no changes in the matters for which we make critical accounting estimates in the preparation of our condensed consolidated financial statements during the three and six months ended June 30, 2013, 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, 2012 included in our 2012 Form 10-K.

**Commitments and Off-Balance Sheet Arrangements**

***Leases and Purchase Obligations***

We lease facilities under non-cancelable operating leases expiring at various dates through 2024. Future minimum lease commitments under these operating leases as of June 30, 2013, was as follows:

Table of Contents

| | | |
|---|---|---|
| Years ending December 31: | | |
| Remainder of 2013 | $ | 2,381 |
| 2014 | | 4,885 |
| 2015 | | 4,761 |
| 2016 | | 4,972 |
| 2017 | | 4,582 |
| Thereafter | | 21,826 |
| | $ | 43,407 |

The table above reflects the impact of the early termination of the Denver, Colorado office lease as discussed in note 15 in this Form 10-Q.

Table of Contents

## 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 six months ended June 30, 2013, 80% and 79% 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 six months ended June 30, 2013, 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 approximately $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 approximately $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.

## Item 4. Controls and Procedures

### *Disclosure Controls and Procedures*

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2013. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act ), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of June 30, 2013, and due to the material weakness in our internal control over financial reporting described below under *Management s Report on Internal Control Over Financial Reporting*, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were not effective.

Beginning in the second quarter of fiscal year 2013, management included the internal controls of Prima and Tamarac in its assessment of the effectiveness of Envestnet s internal control over financial reporting. Prima and Tamarac were acquired during the second quarter of 2012 as discussed in Note 3, *Business Acquisitions,* in the notes to consolidated financial statements included in our 2012 Form 10-K, and were excluded from management s assessment of internal control over financial reporting for the fiscal year ended December 31, 2012 in accordance with the guidance issued by the SEC regarding exclusion of certain acquired businesses.

Table of Contents

***Management s Report on Internal Control Over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for our company. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Exchange Act, as a process designed by, or under the supervision of, a company s principal executive and principal financial officers and effected by the Company s board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made in accordance with authorizations of management and directors of the company; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, including our chief executive officer and chief financial officer, assessed the effectiveness of our internal control over financial reporting as of June 30, 2013. In connection with this assessment, we identified a material weakness, as described below, in internal control over financial reporting as of June 30, 2013. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control An Integrated Framework* (September 1992). Because of the material weakness described below, management concluded that, as of June 30, 2013, our internal control over financial reporting was not effective.

*Inadequate and ineffective controls over accounting for income taxes*

We did not have adequate design or operation of controls that provide reasonable assurance that the accounting for income taxes, including the related financial statement disclosures, were in accordance with GAAP. Specifically, we relied on third-party subject matter experts and did not have sufficient technical expertise in the income tax function to provide adequate review and control with respect to the (a) identification and ongoing evaluation of uncertain tax positions in foreign tax jurisdictions; (b) complete and accurate recording of deferred tax assets and liabilities due to differences in accounting treatment for book and tax purposes; and (c) complete and accurate recording of inputs to the consolidated income tax provision and related accruals.

***Remediation Plans***

Management is committed to remediating its material weakness in a timely fashion. We have begun the process of executing remediation plans that address the material weakness in internal controls relating to the accounting for income taxes. Specifically, we replaced our third-party subject matter experts and also hired internal personnel dedicated to managing the income tax function to enhance our expertise in determining the appropriate accounting for material and complex tax transactions. In addition, management s planned actions to further address the material weakness include:

- Review of tax accounting process to identify and implement enhanced tax accounting processes and related internal control procedures,

- Enhancement of our controls related to the preparation of tax accounting position papers documenting our analysis and conclusions for all technical tax accounting matters, and

- Establish training and education programs for financial personnel responsible for income tax accounting.

Table of Contents

The Audit Committee has directed management to develop a detailed plan and timetable for the implementation of the foregoing remedial measures (to the extent not already completed) and will monitor their implementation. In addition, under the direction of the Audit Committee, management will continue to review and make necessary changes to the overall design of the Company s internal control environment, as well as policies and procedures to improve the overall effectiveness of internal control over financial reporting.

Management believes the measures described above and others that will be implemented will remediate the control deficiencies identified and will strengthen our internal control over financial reporting. Management is committed to continuous improvement of the Company s internal control processes and will continue to diligently review our financial reporting controls and procedures. As management continues to evaluate and work to improve internal control over financial reporting, we may take additional measures to address control deficiencies or determine to modify, or in appropriate circumstances not to complete, certain of the remediation measures described above. We expect these remedial actions and or other actions related to this maternal weakness to be effectively implemented in 2013 in order to successfully remediate the material weakness reported within this Form 10-Q by December 31, 2013.

If the remedial measures described above are insufficient to address the identified material weakness or are not implemented effectively, or additional deficiencies arise in the future, material misstatements in our interim or annual financial statements may occur in the future. Among other things, any un-remediated material weakness could result in material post-closing adjustments in future financial statements.

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

During the six months ended June 30, 2013, other than replacing our third-party subject matter experts related to income taxes and the hiring of internal personnel dedicated to managing the income tax function, there were no changes to our internal control over financial reporting that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

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 2012 Form 10-K, when making investment decisions regarding our securities. The risk factors that were disclosed in our 2012 Form 10-K have not materially changed since the date our 2012 Form 10-K was filed.

### Item 2. Unregistered Sales of Equity Securities

***Unregistered Sales of Equity Securities***

As reported on Form 8-K filed on June 26, 2013, a third party exercised a warrant to acquire 1,388,888 shares of the Company's stock, with an exercise price of $10.80 per share. The third party exercised this warrant on a cashless basis, and as a result, the Company issued 761,902 shares of the Company's common stock to the third party.

**(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 |
|---|---|---|---|---|
| April 1, 2013 through April 30, 2013 | | $ | | $ |
| May 1, 2013 through May 31, 2013 | 11,793 | 18.25 | | |
| June 1, 2013 through June 30, 2013 | | | | |

**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.

Table of Contents

## 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 August 8, 2013.

**ENVESTNET, INC.**

| | |
|---|---|
| By: | */s/ Judson Bergman*<br>**Judson Bergman**<br>***Chairman and Chief Executive Officer***<br>***Principal Executive Officer*** |
| By: | */s/ Peter H. D Arrigo*<br>**Peter H. D Arrigo**<br>***Chief Financial Officer***<br>***Principal Financial Officer*** |
| By: | */s/ Dale Seier*<br>**Dale Seier**<br>***Senior Vice President, Finance***<br>***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 June 30, 2013 and December 31, 2012; (ii) the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2013 and 2012; (iii) the Condensed Consolidated Statements of Stockholders Equity for the six months ended June 30, 2013; (iv) the Condensed Consolidated Statements of Cash Flow for the six months ended June 30, 2013 and 2012; (v) Notes to Condensed Consolidated Financial Statements tagged as blocks of text.

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