Financial Engines, Inc.
Form 10-Q
November 10, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2014

OR

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Commission File No. 001-34636

FINANCIAL ENGINES, INC.

(Exact name of registrant as specified in its charter)

Delaware	**94-3250323**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1050 Enterprise Way, 3rd Floor

Sunnyvale, CA 94089

(Address of principal executive offices, Zip Code)

(408) 498-6000

(Registrant s telephone number, including area code)

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 ¨

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 ¨

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 definition of accelerated filer, large accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of October 31, 2014, 51,955,106 shares of Common Stock, par value $0.0001, were issued and outstanding.

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FINANCIAL ENGINES, INC.

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FOR THE QUARTER ENDED SEPTEMBER 30, 2014

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PART I: FINANCIAL INFORMATION

Item 1. ***Condensed Consolidated Financial Statements (Unaudited)***

FINANCIAL ENGINES, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Unaudited)

	December 31, 2013	September 30, 2014
	(In thousands, except per share data)	
Assets		
Current assets:		
Cash and cash equivalents	$ 126,003	$ 131,040
Short-term investments	120,027	164,904
Accounts receivable, net	63,805	68,817
Prepaid expenses	3,271	4,196
Deferred tax assets	17,363	12,787
Other current assets	3,326	4,754
Total current assets	333,795	386,498
Property and equipment, net	15,273	19,977
Internal use software, net	8,530	6,774
Long-term deferred tax assets	4,989	4,989
Direct response advertising, net	9,717	8,413
Other assets	3,377	3,419
Total assets	$ 375,681	$ 430,070
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 20,801	$ 23,457
Accrued compensation	14,138	8,292
Deferred revenue	7,868	7,815
Dividend payable	2,540	3,112
Other current liabilities	959	1,167
Total current liabilities	46,306	43,843
Long-term deferred revenue	714	451
Long-term deferred rent	6,644	8,632
Other liabilities	131	2,913
Total liabilities	53,795	55,839

Contingencies (see note 9)		
Stockholders equity:		
Preferred stock, $0.0001 par value - 10,000 authorized as of December 31, 2013 and September 30, 2014; None issued or outstanding as of December 31, 2013 and September 30, 2014		
Common stock, $0.0001 par value - 500,000 authorized as of December 31, 2013 and September 30, 2014; 50,890 and 51,912 shares issued and outstanding at December 31, 2013 and September 30, 2014, respectively	5	5
Additional paid-in capital	361,955	396,707
Accumulated deficit	(40,074)	(22,481)
Total stockholders equity	321,886	374,231
Total liabilities and stockholders equity	$ 375,681	$ 430,070

See accompanying notes to the unaudited condensed consolidated financial statements.

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FINANCIAL ENGINES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Income

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2014	2013	2014
	(In thousands, except per share data)			
Revenue:				
Professional management	$ 52,498	$ 63,226	$ 146,453	$ 181,030
Platform	8,484	8,316	24,987	24,828
Other	1,103	1,209	2,290	2,559
Total revenue	62,085	72,751	173,730	208,417
Costs and expenses:				
Cost of revenue (exclusive of amortization of internal use software)	24,643	30,280	67,117	83,436
Research and development	7,260	7,460	22,527	22,392
Sales and marketing	10,429	12,907	31,692	36,607
General and administrative	5,402	5,549	15,367	16,995
Amortization of internal use software	1,633	1,574	4,993	4,709
Total costs and expenses	49,367	57,770	141,696	164,139
Income from operations	12,718	14,981	32,034	44,278
Interest income, net	19	44	29	121
Other income (expense), net	(10)	(4)	(10)	(1)
Income before income taxes	12,727	15,021	32,053	44,398
Income tax expense	4,581	6,014	11,372	17,520
Net and comprehensive income	$ 8,146	$ 9,007	$ 20,681	$ 26,878
Dividends declared per share of common stock	$ 0.05	$ 0.06	$ 0.15	$ 0.18
Net income per share attributable to holders of common stock				
Basic	$ 0.16	$ 0.17	$ 0.42	$ 0.52
Diluted	$ 0.15	$ 0.17	$ 0.40	$ 0.50
Shares used to compute net income per share attributable to holders of common stock				
Basic	49,934	51,811	49,145	51,481
Diluted	52,677	53,312	52,074	53,286

See accompanying notes to the unaudited condensed consolidated financial statements.

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FINANCIAL ENGINES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2014
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 20,681	$ 26,878
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,888	3,493
Amortization of internal use software	4,679	4,432
Stock-based compensation	10,442	14,745
Amortization of deferred sales commissions	1,432	1,173
Amortization and impairment of direct response advertising	4,491	4,631
Amortization of premium (discount) on short-term investments	1	(22)
Provision for doubtful accounts	298	472
Deferred tax assets	8,357	6,936
Loss (gain) on fixed asset disposal		(8)
Excess tax benefit associated with stock-based compensation	(2,822)	(10,363)
Changes in operating assets and liabilities:		
Accounts receivable	(10,959)	(5,484)
Prepaid expenses	(649)	(926)
Direct response advertising	(4,215)	(3,301)
Other assets	(718)	(2,643)
Accounts payable	6,247	11,293
Accrued compensation	(733)	(5,845)
Deferred revenue	(443)	(316)
Deferred rent	26	2,152
Net cash provided by operating activities	39,003	47,297
Cash flows from investing activities:		
Purchase of property and equipment	(3,065)	(6,137)
Sale of property and equipment		8
Capitalization of internal use software	(3,345)	(2,743)
Release of restricted cash	759	
Purchases of short-term investments	(90,028)	(134,854)
Maturities of short-term investments		90,000
Net cash used in investing activities	(95,679)	(53,726)

Cash flows from financing activities:

Payments on capital lease obligations	(48)	(77)
Excess tax benefit associated with stock-based compensation	2,822	10,363
Net share settlements for minimum tax withholdings		(135)
Proceeds from issuance of common stock	19,531	10,028
Cash dividend payments	(4,911)	(8,713)
Net cash provided by financing activities	17,394	11,466
Net increase (decrease) in cash and cash equivalents	(39,282)	5,037
Cash and cash equivalents, beginning of period	181,231	126,003
Cash and cash equivalents, end of period	$ 141,949	$ 131,040
Supplemental cash flows information:		
Income taxes paid, net of refunds	$ 506	$ 232
Interest paid	$ 7	$ 9
Non-cash operating, investing and financing activities:		
Purchase of property and equipment under capital lease	$ 34	$ 169
Unpaid purchases of property and equipment	$ 477	$ 2,954
Capitalized stock-based compensation for internal use software	$ 202	$ 210
Capitalized stock-based compensation for direct response advertising	$ 54	$ 78
Dividends declared but not yet paid	$ 2,511	$ 3,112

See accompanying notes to the unaudited condensed consolidated financial statements.

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FINANCIAL ENGINES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 Organization and Description of the Business

The Company

Financial Engines, Inc. (the Company) was incorporated on May 13, 1996 under the laws of the State of California and is headquartered in Sunnyvale, California. In February 2010, the Company was reincorporated under the laws of the State of Delaware.

Financial Engines is a provider of independent, technology-enabled portfolio management services, investment advice and retirement income services primarily to participants in employer-sponsored defined contribution plans, such as 401(k) plans. The Company helps investors plan for retirement by offering personalized plans for saving and investing, as well as by providing assessments of retirement income needs and readiness, regardless of personal wealth or investment account size. The Company uses its proprietary advice technology platform to provide independent, personalized portfolio management, investment advice and retirement income services to millions of retirement plan participants on a cost-efficient basis.

NOTE 2 Basis of Presentation

Interim Financial Statements

The accompanying condensed consolidated financial statements and notes thereto are unaudited. These unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and applicable rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes contained in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2013, as filed on February 20, 2014 with the SEC (the 2013 Annual Report). The Condensed Consolidated Balance Sheet as of December 31, 2013, included herein, was derived from the audited financial statements as of that date but does not include all disclosures including notes required by GAAP.

The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments necessary for the fair presentation of the Company s Balance Sheets as of December 31, 2013 and September 30, 2014, the Company s Statements of Income for the three and nine months ended September 30, 2013 and 2014 and the Company s Statements of Cash Flows for the nine months ended September 30, 2013 and 2014. The results for the three and nine months ended September 30, 2014 are not necessarily indicative of the results to be expected for the year ending December 31, 2014.

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Comprehensive income is the same as net income for all periods presented.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Significant items subject to such estimates and assumptions include income taxes, stock-based compensation, direct response advertising, the useful lives of property, equipment, internal use software and revenue recognition. Actual results could differ from those estimates under different assumptions or conditions.

Short-term Investments

Short-term investments consist of U.S. Treasury securities. The Company classifies its short-term investments as held-to maturity as the Company has the positive intent and ability to hold to maturity and they are carried at amortized cost. The Company evaluates the investments periodically for possible other-than-temporary impairment. In order to determine whether a decline in value is other-than-temporary, the Company evaluates, among other factors: the duration and extent to which the fair value has been less than the carrying value, and its intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

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FINANCIAL ENGINES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Recent Accounting Pronouncements

On May 28, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

NOTE 3 Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less from date of purchase to be cash equivalents. Cash equivalents are comprised of cash held primarily in money market accounts. Cash and cash equivalents consist of the following:

	December 31, 2013	September 30, 2014
	(In thousands)	
Cash	$ 12,404	$ 25,182
Money market fund	113,599	105,858
Total cash and cash equivalents	$ 126,003	$ 131,040

NOTE 4 Short-Term Investments

The Company considers all investments purchased with an original remaining maturity of between three and twelve months at the date of purchase to be short-term investments. The U.S. Treasury securities are classified as held-to-maturity. A reconciliation between amortized cost and fair value of short-term investments is as follows:

	December 31, 2013	September 30, 2014
	(In thousands)	
U.S. Treasury Securities:		
Amortized cost	$ 120,027	$ 164,904

Gross unrecognized gains	12	49
Gross unrecognized losses	(2)	
Fair value	$ 120,037	$ 164,953

NOTE 5 Concentration of Credit Risk and Fair Value of Financial Instruments

The Company measures and reports its investments in money market funds at fair value on a recurring basis, which approximates their carrying value due to the short period of time to maturity, and reports its short-term investments in U.S. Treasury securities at amortized cost at each reporting period. There have been no changes in the Company s valuation techniques during the nine months ended September 30, 2014. The Company began purchasing six-month and twelve month U.S. Treasury securities in May 2013. The U.S. Treasury securities have maturity dates through September 2015. Both the money market funds and U.S. Treasury securities are classified as Level 1.

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FINANCIAL ENGINES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table summarizes the Company s financial assets measured at fair value on a recurring basis:

	As of December 31, 2013				As of September 30, 2014			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1) (1)	Significant Other Observable Inputs (Level 2) (2)	Significant Other Unobservable Inputs (Level 3) (3)	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1) (1)	Significant Other Observable Inputs (Level 2) (2)	Significant Other Unobservable Inputs (Level 3) (3)
	(In thousands)							
Assets:								
Money Market Funds	$ 113,599	$ 113,599	$	$	$ 105,858	$ 105,858	$	$
US Treasury Securities	$ 120,037	$ 120,037	$	$	$ 164,953	$ 164,953	$	$

(1) Level 1: Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

(2) Level 2: Inputs reflect quoted prices for identical assets or liabilities in markets that are not active; quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the assets or liabilities; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

(3) Level 3: Unobservable inputs reflecting the Company s own assumptions incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash, cash equivalents, short-term investments and trade accounts receivable. The Company maintains its cash and cash equivalents primarily with a major bank, where deposits may exceed federal deposit insurance limits. The Company maintains cash equivalents primarily in highly-rated taxable money market funds located in the United States.

The Company s customers are concentrated in the United States. The Company performs ongoing credit evaluations of its customers and does not require collateral. The Company reviews the need for allowances for potential credit losses and such losses have been insignificant to date.

Significant customer information is as follows:

	December 31, 2013	September 30, 2014
Percentage of accounts receivable:		
Great-West [(1)]	14%	15%
Voya Retirement Advisors, LLC (f/n/a: ING Investment Advisors, LLC)	11%	8%

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2014	2013	2014
Percentage of revenue:				
Great-West [(1)]	12%	11%	12%	11%
Aon Hewitt Financial Advisors, LLC	5%	10%	4%	9%

(1) Great-West refers to Great-West Life & Annuity Insurance Company (GWL&A), which purchased J.P. Morgan Retirement Plan Services LLC under agreement dated April 2, 2014. Advisory services to be provided through GWL&A affiliate Advised Assets Group, LLC.

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FINANCIAL ENGINES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 6 Stockholders Equity

Stock-based Compensation

The following table summarizes the stock-based compensation, as included in the Condensed Consolidated Statements of Income, by functional area:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2014	2013	2014
	(In thousands)			
Stock-based compensation:				
Cost of revenue	$ 445	$ 817	$ 1,081	$ 2,075
Research and development	977	1,053	2,381	3,301
Sales and marketing	1,039	1,343	2,563	4,148
General and administrative	1,672	1,587	4,103	4,944
Amortization of internal use software	99	96	314	277
Total stock-based compensation	$ 4,232	$ 4,896	$ 10,442	$ 14,745

On a quarterly basis, the Company updates its Black-Scholes option pricing model to reflect the anticipated dividends to be paid over the expected term of the awards. For the three months ended September 30, 2014, the Company included a dividend yield of 0.7%.

Cash Dividends

In October 30, 2014, the Board of Directors declared a quarterly dividend of $0.06 per share to be paid on January 7, 2015 to record-holders as of December 15, 2014. While the Company currently expects to pay comparable cash dividends on a quarterly basis in the future, any future determination with respect to the declaration and payment of dividends will be at the discretion of the Board of Directors. As of September 30, 2014, the Company had a dividend payable balance of $3.1 million, which was paid to stockholders in October 2014.

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FINANCIAL ENGINES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 7 Net Income Per Common Share

Basic net income per common share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per common share is computed by giving effect to all potential dilutive common shares, including options, restricted stock units and performance stock units.

The following table sets forth the computation of basic and diluted net income per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2014	2013	2014
	(In thousands, except per share data)			
Numerator (basic and diluted):				
Net income	$ 8,146	$ 9,007	$ 20,681	$ 26,878
Denominator (basic):				
Net weighted average common shares outstanding	49,934	51,811	49,145	51,481
Denominator (diluted):				
Weighted average common shares outstanding	49,934	51,811	49,145	51,481
Dilutive stock options and awards outstanding	2,470	1,176	2,705	1,500
Dilutive unvested restricted stock units	273	278	224	265
Dilutive unvested performance stock units		47		40
Net weighted average common shares outstanding	52,677	53,312	52,074	53,286
Net income per share attributable to holders of common stock:				
Basic	$ 0.16	$ 0.17	$ 0.42	$ 0.52
Diluted	$ 0.15	$ 0.17	$ 0.40	$ 0.50

Diluted net income per share does not include the effect of the following anti-dilutive common equivalent shares:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2014	2013	2014

		(In thousands)		
Stock options outstanding	175	859	325	612
Restricted stock units outstanding			11	19
Performance stock units outstanding	102	6	47	2
Total anti-dilutive common equivalent shares	277	865	383	633

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FINANCIAL ENGINES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 8 Income Taxes

The Company recorded an income tax provision of $4.6 million and $6.0 million for the three months ended September 30, 2013 and 2014, respectively, and an income tax provision of $11.4 million and $17.5 million for the nine months ended September 30, 2013 and 2014, respectively. The Company s effective tax rate was 35% and 39% for the nine months ended September 30, 2013 and 2014, respectively. The increase in the Company s effective tax rate was due primarily to a decrease in disqualifying stock dispositions, as well as a legislative change in the nine months ended September 30, 2013 that resulted in the recognition of the benefit related to the 2012 research and development credits in the nine months ended September 30, 2013. The research and development credit was not reinstated for fiscal year 2014.

As of December 31, 2013, the Company continues to believe that sufficient positive evidence exists from historical operations and future projections to conclude that it is more likely than not to fully realize its federal deferred tax assets and to partially realize its State of California deferred tax assets in future periods. The Company continuously evaluates additional facts representing positive and negative evidence in the determination of the realizability of the deferred tax assets. The Company continues to apply a valuation allowance on certain deferred tax assets in the amount of $0.3 million as of December 31, 2013 relating to net operating losses for the State of California as it is not more likely than not that the Company will be able to realize these assets prior to their expiration.

The Company is subject to income taxes in the U.S. federal jurisdiction and various state jurisdictions. All tax years since inception are open due to loss carryforwards and may be subject to examination in one or more jurisdictions. The Company has undergone a federal tax examination for fiscal years 2006 and 2007 and the results did not have a material impact on its financial condition and results of operations. As of September 30, 2014, there are no on-going tax audits in any significant tax jurisdictions.

At December 31, 2013, the Company had net operating loss carryforwards for federal purposes of approximately $194.3 million that expire at varying dates through 2033. As of December 31, 2013, the Company had gross unrecognized tax benefits for income taxes associated with uncertain tax positions of $6.6 million. The balance of the gross unrecognized tax benefits is not expected to materially change in the next twelve months.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense. During the nine months ended September 30, 2013 and 2014, the accrued interest and penalties were immaterial.

NOTE 9 Commitments and Contingencies

Commitments

In March 2014, the Company entered into a non-cancelable operating lease for a new Boston, Massachusetts facility totaling $16.6 million in future minimum payments through July 2025. The lease includes an extension option for a period of 5 years, an ongoing right of first offer with respect to any contiguous space that becomes available, and a one-time expansion option with respect to specific space on the floor below the leased premises. For this facility, the Company recognizes expense on a straight-line basis over the lease period commencing on the date that the facility becomes available to the Company for construction purposes, which occurred in July 2014. The lease provides for a 26-month free-rent period and escalating rent payments thereafter. The new operating lease contract includes a tenant improvement allowance of approximately $2.4 million, and as of September 30, 2014 there was a receivable balance associated with this allowance of $2.2 million. The lease for the previous Boston, Massachusetts facility terminates in January 2015.

Contingencies

The Company includes service level commitments to its customers warranting certain levels of reliability and performance. The maximum total commitments under these obligations would not have a material effect on the Company s operating results.

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FINANCIAL ENGINES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 10 Subsequent Events

On November 5, 2014, the Compensation Committee of the Board of Directors approved the grant of equity awards with an estimated expense value of $9.8 million, net of estimated forfeitures, to certain of the Company s executive employees. The date of grant of each award will be November 11, 2014. On July 21, 2014 the Compensation Committee approved the grant of equity awards with an estimated expense value of $7.8 million, net of estimated forfeitures, to certain of the Company s non-executive employees in mid-November 2014. The Company will account for these equity awards over a four-year vesting period utilizing the graded-vesting attribution method.

On November 5, 2014, the Board of Directors approved a stock repurchase program of up to $50 million of the Company s common stock over the next twelve months. Any share repurchases may be made through open market and privately negotiated transactions, at times and in such amounts as management deems appropriate, and may or may not be made pursuant to one or more Rule 10b5-1 trading plans adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934. The timing and amount of any shares repurchased will depend on a variety of factors, including stock price, market conditions, corporate and regulatory requirements (including applicable securities laws and regulations and the rules of The NASDAQ Stock Market), any additional constraints related to material inside information the Company may possess, and capital availability. The Company has no commitment to make any repurchases. The stock repurchase program may be modified, extended or terminated by the Board of Directors at any time and there is no guarantee as to the exact number of shares, if any, that will be repurchased under the program. The stock repurchase program is expected be funded by available working capital.

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

This Report contains forward-looking statements that involve risks and uncertainties. In some cases, you can identify forward-looking statements by terms such as may, might, will, objective, intend, should, could, can, v believe, anticipate, designed to, estimate, predict, potential, plan, or the negative of these terms, and simila expressions intended to identify forward-looking statements. These statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Forward-looking statements include, but are not limited to, statements about anticipated trends and challenges in our business and the markets in which we operate; the capabilities, benefits and effectiveness of our services; our plans for future services, enhancements of existing services and our growth; our expectations regarding our expenses and revenue, including our deferred tax assets and sources of revenue; our effective tax rate; our anticipated cash needs and expenditures, including with respect to our new operating lease in Boston, our estimates regarding our capital requirements and our needs for additional financing; our ability to retain and attract customers; our regulatory environment; our ability to recruit and retain professionals; volatility of our stock; our expectations regarding the amounts, timing and frequency of any payment of dividends; impact of our accounting policies; benefit of non-GAAP financial measures; the stock repurchase program; the grant of equity awards and the timing and potential impact thereof; our disclosure controls and procedures; our legal proceedings; intellectual property; and our expectations regarding competition. These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, the risks set forth throughout this Report, including under Item 1A, Risk Factors. These forward-looking statements speak only as of the date hereof. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Our investment advisory and management services are provided through our subsidiary, Financial Engines Advisors L.L.C., a federally registered investment adviser. References in this Report to Financial Engines, our company, we, u and our refer to Financial Engines, Inc. and its consolidated subsidiaries during the periods presented unless the context requires otherwise.

Overview

We are a leading provider of independent, technology-enabled portfolio management, investment advice and retirement income services primarily to participants in employer-sponsored defined contribution retirement plans, such as 401(k) plans. We use our proprietary advice technology platform to provide our services to millions of investors on a cost-efficient basis. Our business model is based primarily on workplace delivery of our services, where we target three key constituencies in the retirement plan market: plan participants, plan sponsors and plan providers. We help investors plan for retirement by offering personalized plans for saving and investing, as well as providing assessments of retirement income needs and readiness, regardless of personal wealth or investment account size.

Revenue

We generate revenue primarily from management fees on Assets Under Management (AUM), as well as from platform fees, by providing portfolio management services, investment advice and retirement income services primarily to plan participants of employer-sponsored retirement plans. We maintain two types of relationships with retirement plan providers. In direct advisory relationships, we are the primary advisor and a plan fiduciary. In subadvisory relationships, the plan provider (or its affiliate) is the primary advisor and plan fiduciary, and we act in a subadvisory capacity.

Professional Management

We derive professional management revenue from member fees paid by or on behalf of plan participants who are enrolled in our Professional Management service for the management of their account assets. Our Professional Management service is a discretionary investment management service that includes retirement income services, a Retirement Plan analyzing investments, contribution rate and projected retirement income, a Retirement Checkup designed to help plan participants develop a strategy for closing the gap, if any, between the participant s retirement goal and current retirement income forecast and retirement income services. Income+ is a feature of our Professional Management service that provides retirement income for 401(k) participants by providing discretionary portfolio management with an income objective and steady monthly payments from their 401(k) accounts during retirement. The services are generally made available to plan participants in a 401(k) plan by written agreements with the plan provider, plan sponsor and the plan participant.

Our arrangements with customers generally provide for member fees based on the value of assets we manage for plan participants and are generally payable quarterly in arrears. The majority of our member fees across both advisory and subadvisory relationships are calculated on a monthly basis, as the product of member fee rates and the value of AUM at or near the end of each month for members. In general, we expect this methodology to reduce the impact of financial market volatility on our professional management revenue, although this methodology may result in lower member fees if the financial markets are down when member fees are calculated, even if the market had performed well earlier in the month or the quarter.

Pursuant to the contracts with our members, we calculate our member fees based on the asset amounts in data files as received directly from the plan providers, with no judgments or estimates on our part. None of our member fees are based on investment performance or other incentive arrangements. Our fees generally are based on AUM, which is influenced by market performance. Our fees are not based on a share of the capital gains or appreciation in a member s account. In some cases, our member fees or the applicable fee schedule may adjust downward based on overall participant or AUM enrollment performance milestones over time. Our member fees are determined by the value of the assets in the member s account at the specified dates and are recognized as the services are performed.

In order to encourage enrollment into our Professional Management service, we use a variety of promotional and communication campaign techniques, some of which can potentially impact the amount of revenue recognized, the timing of revenue recognition or both. Historically, we have seen a general preference from plan sponsors to commence campaigns in the second and third quarters of the year and we expect this trend to continue. We would generally expect our professional management revenue to continue to increase as a percentage of overall revenue, which will cause our revenue to become increasingly more sensitive to market performance.

Enrollment Metrics

We measure enrollment in our Professional Management service by members as a percentage of eligible plan participants and by AUM as a percentage of Assets Under Contract (AUC), in each case across all plans where the Professional Management service is available for enrollment, including plans where enrollment campaigns are not yet concluded or have not commenced.

AUM is defined as the amount of retirement plan assets that we manage as part of our Professional Management service. Our AUM is the value of assets under management as reported by plan providers at or near the end of each month or quarter. Our members are the plan participants who are enrolled in our Professional Management service as reported by plan providers at or near the end of each month or quarter.

AUC is defined as the amount of assets in retirement plans under contract for which the Professional Management service has been made available to eligible participants. Our AUC and eligible participants do not include assets or participants in plans where we have signed contracts but for which we have not yet made the Professional Management service available. Eligible participants and AUC are reported by plan providers with varying frequency and at different points in time, and are not always updated or marked to market. If markets have declined, or if assets have left the plan, since the reporting date, our AUC may be overstated. If markets have risen, or if assets have been added to the plan, since the reporting date, our AUC may be understated. Some plan participants may not be eligible for our services due to plan sponsor limitations on employees treated as insiders for purposes of securities laws or other characteristics of the plan participant. Certain securities within a plan participant s account may be ineligible for management by us, such as employer stock subject to trading restrictions, and we do not manage or charge a fee for that portion of the account. In both of these circumstances, assets of the relevant participants may be included in AUC but cannot be converted to AUM. We believe that AUC can be a useful indicator of the additional plan assets available for enrollment efforts that, if successful, would result in these assets becoming AUM. We believe that total eligible participants provides a useful approximation of the number of participants available for enrollment into the Professional Management service.

As of September 30, 2014, we had approximately $884 billion of AUC and 8.3 million plan participants in plans for which the Professional Management service is available, which includes approximately $217 billion of AUC and 2.2 million plan participants in plans at 93 plan sponsors for which Income+ has been made available to participants.

As of September 30, 2014, we had 176 Income+ plan sponsor contracts, including the aforementioned 93 plan sponsors where Income+ has been made available to participants and 83 plan sponsors for which the service has not yet been made available, representing a total of approximately $345 billion of retirement assets and 3.4 million participants.

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In addition to measuring enrollment in all plans where the Professional Management service is available, we measure enrollment in plans where the Professional Management service has been available for at least 14 months and in plans where it has been available for at least 26 months.

	Members as a Percentage of Eligible Participants	AUM as a Percentage of AUC(1)
All plans as of September 30, 2014		
Professional Management available	10.1%	11.5%
Professional Management available 14 months or more	10.8%	12.4%
Professional Management available 26 months or more	11.8%	13.2%

(1) We receive AUM data from plan providers at or near the end of each quarter and AUC data from plan providers at various points in time, neither of which is marked to market as of quarter end. In quarters with significant volatility, especially near the end of the quarter, the AUC data we receive from plan providers can be significantly different than market values as of quarter end. As of September 30, 2014, we performed a calculation to estimate the marked-to-market asset enrollment rate as of September 30, 2014, which we believe was approximately 11.5% where Professional Management is available, approximately 12.4% where Professional Management has been available for 14 months or more and approximately 13.2% where Professional Management has been available for 26 months or more.

As of September 30, 2014, the approximate aggregate style exposure of the portfolios we managed was as follows:

Cash	3%
Bonds	26%
Domestic Equity	45%
International Equity	26%
Total	**100%**

We estimate the aggregate percentage of equity exposures have ranged from a low of approximately 56% to a high of approximately 78% since we began managing assets on a discretionary basis in September 2004. These percentages can be affected by the asset exposures of the overall market portfolio, the demographics of our member population including the adoption of Income+, the number of members who have told us that they want to assume greater or lesser investment risk, and, to a lesser extent given the amount of assets we have under management, the proportion of our members for whom we have completed the transition from their initial portfolio.

Changes in AUM

The following table illustrates estimated changes in our AUM over the last four quarters:

	Q4 13	Q1 14	Q2 14	Q3 14
		(In billions)		
AUM, beginning of period	$ 82.0	$ 88.2	$ 92.0	$ 98.4
New Enrollment[1]	4.4	3.9	4.0	6.5
Voluntary Cancellations[2]	(1.6)	(1.5)	(1.2)	(1.5)
Involuntary Cancellations[3]	(1.8)	(1.2)	(1.4)	(1.2)
Contributions[4]	1.4	1.5	1.6	1.6
Market Movement and Other[5]	3.8	1.1	3.4	(1.9)
AUM, end of period	**$ 88.2**	**$ 92.0**	**$ 98.4**	**$ 101.9**

(1) The aggregate amount of AUM, at the time of enrollment, of new members who enrolled in our Professional Management service within the period. We receive 401(k) account balances for each member at least weekly, including 401(k) account balances for new members. Accordingly, we are able to capture the 401(k) account balances within a week of enrollment for any given new member.

(2) The aggregate amount of assets, at the time of cancellation, for voluntary cancellations from the Professional Management service within the period. Members may cancel at any time without any requirement to provide advance notice. Our quarter-end AUM excludes the assets of any account cancelled by a member prior to the end of the last day of the quarter. We can quantify this amount for any period by retrieving the account value from the last file received during the week prior to cancellation.

(3) The aggregate amount of assets, as of the last available positive account balance, for involuntary cancellations occurring when the member s 401(k) plan account balance has been reduced to zero or when the cancellation of a plan sponsor contract for the Professional Management service has become effective within the period. Plan sponsors may cancel their contract for the provision of Professional Management services to the plan participants upon specified notice or without notice for fiduciary reasons or breach of contract. If a plan sponsor has provided advance notice of cancellation of the plan sponsor contract, however, the AUM for members of that plan sponsor is included in our AUM until the effective date of the cancellation, after which it is no longer part of our AUM. If a member s account value falls to zero, either upon the effective date of a sponsor cancellation or the member transferring the entire account balance, we treat the account as an involuntary cancellation and quantify the amount for any period by retrieving the account value from the last file received with a positive balance. There were no involuntary member cancellations due to the effective date of a plan sponsor cancellation occurring between October 1, 2014 and October 31, 2014 that would have caused the AUM that was reported as of September 30, 2014 to be reduced.

(4) Employer and employee contributions are estimated each quarter from annual contribution rates based on data received from plan providers or plan sponsors. Typically, we receive data from plan providers or plan sponsors via weekly member files, allowing us to estimate contributions for those members for whom we have received this data. For the last four quarters, the weekly member files contained annual contribution rates, employer matching and salary levels for a subset of our total members, representing approximately 84-90% of our overall AUM. The average contribution rate is calculated using this data and extrapolated to approximate 100% of employee and employer contributions for our overall AUM.

(5) Other factors affecting AUM include estimated market movement, plan administrative fees, participant loans and hardship withdrawals, and timing differences. We cannot separately quantify the impact of the other factors contained in this line item as the information we receive from the plan providers does not separately identify these transactions or the changes in balances due to market movement. We would expect that market movement would typically represent the most substantial portion of this line item in a given quarter.

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Our AUM increases or decreases based on several factors. AUM can increase due to market performance, by the addition of new assets as participants enroll into our Professional Management service, both at existing sponsors as well as at new sponsors where the services have been made available, and by the addition of new assets from employee and employer contributions into their 401(k) accounts. AUM can decrease due to market performance and by the reduction of assets as a result of members terminating their membership, members rolling their assets out of the retirement plan, and sponsors canceling the Professional Management service. Historically, member cancellation rates have typically increased during periods where there has been a significant decline in stock market performance. In addition, member cancellation rates are typically the highest in the three to nine months immediately following the completion of a given promotional campaign, and certain types of promotional techniques may result in higher than average cancellation rates at the end of the promotional period.

A substantial portion of the assets we manage is invested in equity securities, the market prices of which can vary substantially based on changes in economic conditions. An additional portion is invested in fixed income securities, which will generally have lower volatility than the equity market. Therefore, while any changes in equity market performance would significantly affect the value of our AUM, particularly for the AUM invested in equity securities, such changes would typically result in lower volatility for our AUM than the volatility of the equity market as a whole. Because a substantial portion of our revenue is derived from the value of our AUM, changes in fixed income or equity market performance could significantly affect the amount of revenue in a given period. If any of these factors reduces our AUM, the amount of member fees we would earn for managing those assets would decline, which in turn could negatively impact our revenue.

Platform

We derive platform revenue from recurring, subscription-based fees for access to either our full suite of services, including Professional Management, Online Advice service, and Retirement Evaluation, or to our legacy Online Advice service only, and to a lesser extent, from setup fees. Online Advice is a nondiscretionary Internet-based investment advisory service, which includes features such as: recommendations among the investment alternatives available in the employer sponsored retirement plan; a summary of the current value of the plan account; a forecast of how much the plan account investments might be worth at retirement; whether a change is recommended to the contribution rate, risk and diversification and/or unrestricted employer stock holdings; and a projection of how much the participant may spend at retirement. Plan participants may use the service as frequently as they choose to monitor progress toward their financial goals, receive forecasts and investment recommendations and access educational content at our website. The arrangements generally provide for our fees to be paid by the plan sponsor, plan provider or the retirement plan itself, depending on the plan structure. Platform revenue is generally paid annually or quarterly in advance and recognized ratably over the term of the subscription period beginning after the completion of customer setup and data connectivity. Setup fees are recognized ratably over seven years.

Other Revenue

Other revenue includes reimbursement for a portion of marketing and member materials from certain subadvisory relationships and reimbursement for providing personal statements to participants from a limited number of plan sponsors. Costs associated with these reimbursed print fulfillment materials are expensed to cost of revenue as incurred.

Costs and Expenses

Employee compensation and related expenses represent our largest expense and include wages expense, cash incentive compensation expense, benefits expenses, employer payroll tax expense and non-cash stock-based compensation expense. Our cash incentive compensation plan is based, in part, on achieving pre-determined annual corporate financial objectives and may result in an increased current period expense while the anticipated revenue benefits associated with the achievement of such corporate financial objectives may be realized in future periods. We allocate compensation and other related expenses including non-cash stock-based compensation to our cost of revenue, research and development, sales and marketing, general and administrative as well as amortization of internal use software expense categories. We expect our headcount to increase over time and be a primary area of growth in our costs and expenses. We anticipate granting equity awards to board members and certain of our employees each year that may result in significant non-cash stock-based compensation expense. The largest grant events typically occur in the first and fourth quarters, although significant awards may also be granted at other times. We anticipate providing annual compensation increases to certain of our employees each year, typically in the second quarter, that may result in an increase primarily to wages and cash incentive compensation expenses. See Recent Developments.

Other costs and expenses include the costs of fees paid to plan providers related to the exchange of plan and plan participant data as well as implementing our transaction instructions for member accounts, printed marketing and member materials and postage, consulting and professional service expenses, facilities expenses, and amortization and depreciation for hardware and software purchases and support.

The following summarizes our cost of revenue and certain significant operating expenses:

Cost of Revenue. Cost of revenue includes fees paid to plan providers for connectivity to plan and plan participant data, printed materials fulfillment costs for certain subadvisory relationships for which a portion are reimbursed, printed member materials, and employee-related costs for technical operations, advisor call center, operations, implementations and portfolio management. Costs in this area are related primarily to payments to third parties, employee compensation and related expenses, and purchased materials. Costs for connectivity to plan and plan participant data are expected to increase proportionally with our professional management revenue. The expenses included in cost of revenue are shared across the different revenue categories, and we are not able to meaningfully allocate such costs between separate categories of revenue. Consequently, all costs and expenses applicable to our revenue are included in the category cost of revenue in our Consolidated Statements of Income. Amortization of internal use software, a portion of which relates to our cost of revenue, is not included in cost of revenue but is reflected as a separate line item in our statement of income.

Research and Development. Research and development expense includes costs associated with defining and specifying new features and ongoing enhancement to our Advice Engines and other aspects of our service offerings, financial research, quality assurance, related administration and other costs that do not qualify for capitalization. Costs in this area are related primarily to employee compensation for our engineering, product development and investment research personnel and associated expenses and, to a lesser extent, external consulting expenses, which relate primarily to support and maintenance of our existing services.

Sales and Marketing. Sales and marketing expense includes costs associated with customer experience, provider and sponsor relationship management, provider and sponsor marketing, direct sales, product marketing, corporate communications, customer analytics, creative services and printing of, and postage for, marketing materials for direct advisory relationships, including amortization of direct response advertising. Costs in this area are related primarily to employee compensation for sales and marketing personnel and related expenses, and also include commissions, printed materials and general marketing programs.

General and Administrative. General and administrative expense includes costs for finance, accounting, legal, compliance, risk management and administration. Costs in this area include employee compensation and related expenses and fees for consulting and professional services. We have incurred and we expect that we will continue to incur expenses as a result of being a public company for, among other things, SEC reporting and compliance, including compliance with the Sarbanes-Oxley Act of 2002, director compensation, insurance, and other similar expenses.

Amortization of Internal Use Software. Amortization of internal use software expense includes engineering costs associated with (1) enhancing our advisory service platform and (2) developing internal systems for tracking member data, including AUM, member cancellations and other related member and customer experience statistics. Associated direct development costs are capitalized and amortized using the straight-line method over the estimated lives, typically two to three years, of the underlying technology. Costs in this area include employee compensation and related expenses, and fees for external consulting services.

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 nine months ended September 30, 2014, 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, 2013 included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

Recent Developments

On November 5, 2014, our Compensation Committee approved the grant of options to purchase shares of our common stock and RSU awards to members of our executive team. The date of grant of each award will be November 11, 2014. See See Results of Operations Comparison of Three Months Ended September 30, 2013 and 2014 Costs and Expenses.

Also on November 5, 2014, the Compensation Committee approved the cash compensation for our executive officers, including the targets under our 2014 Executive Cash Incentive Plan (the CIP) for the 2015 fiscal year. The base salary increases are scheduled to take effect on November 15, 2014.

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On November 5, 2014, our Board approved a stock repurchase program of up to $50 million of our common stock over the next twelve months. Any share repurchases may be made through open market and privately negotiated transactions, at times and in such amounts as management deems appropriate, and may or may not be made pursuant to one or more Rule 10b5-1 trading plans adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934. The timing and amount of any shares repurchased will depend on a variety of factors, including stock price, market conditions, corporate and regulatory requirements (including applicable securities laws and regulations and the rules of The NASDAQ Stock Market), any additional constraints related to material inside information we may possess, and capital availability. We have no commitment to make any repurchases. The stock repurchase program may be modified, extended or terminated by our Board at any time and there is no guarantee as to the exact number of shares, if any, that will be repurchased under the program. The stock repurchase program is expected be funded by available working capital.

On November 6, 2014, we announced that Lawrence M. Raffone, currently the Company s President, will succeed Jeffrey N. Maggioncalda as the Company s Chief Executive Officer and serve as the Company s Chief Executive Officer and President effective January 1, 2015.

Results of Operations

The following tables set forth our results of operations. The period to period comparison of financial results is not necessarily indicative of future results.

Comparison of Three Months Ended September 30, 2013 and 2014

	Three Months Ended September 30,		**Three Months Ended September 30,**		**Increase (Decrease)**	
	2013	**2014**	**2013**	**2014**	**Amount**	**%**
	(As a percentage of revenue)		**(In thousands, except percentages)**			
Revenue:						
Professional management	84%	87%	$ 52,498	$ 63,226	$ 10,728	20%
Platform	14	11	8,484	8,316	(168)	(2)
Other	2	2	1,103	1,209	106	10
Total revenue	100	100	62,085	72,751	10,666	17
Costs and expenses:						
Cost of revenue (exclusive of amortization of internal use software)	40	42	24,643	30,280	5,637	23
Research and development	12	10	7,260	7,460	200	3
Sales and marketing	17	18	10,429	12,907	2,478	24
General and administrative	9	7	5,402	5,549	147	3
Amortization of internal use software	2	2	1,633	1,574	(59)	(4)
Total costs and expenses	80	79	49,367	57,770	8,403	17
Income from operations	20	21	12,718	14,981	2,263	18

Interest income, net			19	44	25	132
Other income (expense), net			(10)	(4)	6	(60)
Income before income tax expense	20	21	12,727	15,021	2,294	18
Income tax expense	7	9	4,581	6,014	1,433	31
Net income	13%	12%	$ 8,146	$ 9,007	$ 861	11%

Revenue

Total revenue increased $10.7 million, or 17%, from $62.1 million for the three months ended September 30, 2013 to $72.8 million for the three months ended September 30, 2014. This increase was due primarily to growth in professional management revenue of $10.7 million for the three months ended September 30, 2014 compared to the three months ended September 30, 2013, as well as growth of $0.1 million in other revenue, offset by a $0.2 million decrease in platform revenue. Professional management revenue and platform revenue comprised 87% and 11%, respectively, of total revenue for the three months ended September 30, 2014.

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Professional Management Revenue

Professional management revenue increased $10.7 million, or 20%, from $52.5 million for the three months ended September 30, 2013 to $63.2 million for the three months ended September 30, 2014. This increase was due primarily to an increase in the average AUM used to calculate fees from approximately $79.6 billion for the three months ended September 30, 2013 to approximately $100.1 billion for the three months ended September 30, 2014. This increase in average AUM was driven primarily by increased net enrollment resulting from marketing campaigns and other ongoing member acquisitions, and contributions.

Platform Revenue

Platform revenue decreased $0.2 million, or 2%, from $8.5 million for the three months ended September 30, 2013 to $8.3 million for the three months ended September 30, 2014. This decrease was due primarily to a reduction in the amount of platform revenue we receive as a result of a small number of sponsors converting to a subadvisory plan provider, as well as platform fee reductions as a result of sponsors adding new asset-based professional management services. These decreases were partially offset by an increase in platform fees due to service availability at new sponsors.

Other Revenue

Other revenue increased $0.1 million, or 10%, from $1.1 million for the three months ended September 30, 2013 to $1.2 million for the three months ended September 30, 2014. This increase was due primarily to an increase in reimbursable printed fulfillment materials from certain subadvisory relationships.

Costs and Expenses

Costs and expenses increased $8.4 million, or 17%, from $49.4 million for the three months ended September 30, 2013 to $57.8 million for the three months ended September 30, 2014. This increase was due to a $5.6 million increase in cost of revenue, exclusive of amortization of internal use software, a $0.2 million increase in research and development expense, a $2.5 million increase in sales and marketing expense, a $0.1 million increase in general and administrative expense and a $0.1 million decrease in amortization of internal use software for the three months ended September 30, 2014 compared to the three months ended September 30, 2013.

Across all functional areas, cash incentive compensation expense decreased for the three months ended September 30, 2014 compared to the three months ended September 30, 2013, as a result of anticipating lower cash incentive plan percentage achievement for the year ended December 31, 2014 compared to the year ended December 31, 2013. We anticipate this trend will continue for the remainder of the year ended December 31, 2014, resulting in approximately $7.0 million less expense than if we had accrued cash incentive compensation expense at 100% of target. In functional areas with an increase in non-cash stock-based compensation expense, this increase was due primarily to equity awards granted within the last year. Our equity awards generally vest over four years under the graded-vesting attribution method, resulting in greater amounts of compensation expense recognized in earlier periods of the awards with declining amounts recognized in later periods.

We granted equity awards with an estimated expense value, net of estimated forfeitures, of $5.1 million to certain of our executive employees in February 2014. We will account for these equity awards over a four-year vesting period utilizing the graded-vesting attribution method.

We currently anticipate issuing equity awards with an aggregate estimated expense value of approximately $7.8 million, net of estimated forfeitures, to certain of our existing non-executive employees in mid-November 2014. We will account for these equity awards over a four-year vesting period utilizing the graded-vesting attribution method.

On November 5, 2014, the Compensation Committee of the Board of Directors approved the grant of equity awards with an estimated expense value of $9.8 million, net of estimated forfeitures, to certain of our executive employees. We will account for these equity awards over a four-year vesting period utilizing the graded-vesting attribution method. The date of grant of each award will be November 11, 2014.

In March 2014, we entered into a non-cancelable operating lease for a new Boston, Massachusetts facility totaling $16.6 million in future minimum payments through the lease term of July 2025. The rent expense on this lease commenced in July 2014 when we took possession of the facility for construction purposes. We estimate that the new facility will increase our rent expense by approximately $0.4 million per year on an ongoing basis. During the period of July 2014 through January 2015 we will incur rent expense for both the previous and new facilities. The lease for the previously occupied Boston, Massachusetts facility terminates in January 2015. We also expect depreciation expense to increase by approximately $0.8 million per year over the next five years commencing with the completion of the facility in October 2014.

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Cost of Revenue

Cost of revenue, exclusive of amortization of internal use software, increased $5.6 million, or 23%, from $24.6 million for the three months ended September 30, 2013 to $30.3 million for the three months ended September 30, 2014. There was a $3.3 million increase in fees paid to plan providers for connectivity to plan and plan participant data for the three months ended September 30, 2014 compared to the three months ended September 30, 2013, due primarily to an increase in professional management revenue and, to a lesser extent, to modifications to a provider relationship, which extended the initial term and made other changes intended to better align the respective interests of the parties. In addition, there was an increase in subadvisory participant marketing materials and printed member materials of $1.0 million, due primarily to an increase in the volume of subadvisory participant marketing materials. There was also an increase of $0.5 million in wages, benefits, employer payroll tax and allocated human resources expenses due primarily to headcount growth and annual compensation increases effective April 1, 2014, as well as an increase in non-cash stock-based compensation expense of $0.4 million. Facilities related overhead expenses, including rent and depreciation, also increased by $0.5 million as headcount increased between the comparable periods and other expenses, such as equipment, had a net increase of $0.1 million. These increases were partially offset by a decrease in cash incentive compensation of $0.2 million. As a percentage of revenue, cost of revenue increased from 40% for the three months ended September 30, 2013 to 42% for the three months ended September 30, 2014. The increase as a percentage of revenue was due primarily to data connectivity fees expense increasing at a faster rate than revenue due to the aforementioned modifications to a provider relationship, as well as subadvisory participant marketing materials and facilities-related overhead expenses increasing at a faster rate than revenue. We expect our cost of revenue as a percent of revenue, exclusive of amortization of internal use software, to remain in the range of 40% to 42% throughout 2015, due primarily to the data connectivity rates associated with new sponsors signed in 2014, and to a lesser extent, due to adding additional advisor resources.

Research and Development

Research and development expense increased $0.2 million, or 3%, from $7.3 million for the three months ended September 30, 2013 to $7.5 million for the three months ended September 30, 2014. There was a $0.5 million increase in wages, benefits, employer payroll tax and allocated human resources expenses, due primarily to annual compensation increases effective April 1, 2014, as well as a $0.1 million increase in non-cash stock-based compensation expense for the three months ended September 30, 2014 compared to the three months ended September 30, 2013. In addition, the amount of internal use software capitalized decreased by $0.2 million as more developer hours were dedicated to updating and maintaining existing core services. These increases were offset by a $0.6 million decrease in cash incentive compensation expense. As a percentage of revenue, research and development expense decreased from 12% for the three months ended September 30, 2013 to 10% for the three months ended September 30, 2014. The decrease as a percentage of revenue was due primarily to a decrease in cash incentive compensation, as well as a slower increase in wages, benefits, employer payroll tax and allocated human resources expenses, relative to the increase in revenue during the same period. We anticipate adding additional resources in research and development in 2015.

Sales and Marketing

Sales and marketing expense increased $2.5 million, or 24%, from $10.4 million for the three months ended September 30, 2013 to $12.9 million for the three months ended September 30, 2014. There was a $1.0 million increase in wages, benefits, employer payroll tax and allocated human resources expenses due primarily to headcount growth and annual compensation increases effective April 1, 2014 and a $0.3 million increase in non-cash stock-based compensation expense for the three months ended September 30, 2014 compared to the three months ended September 30, 2013. In addition, there was a $0.8 million increase in facilities-related overhead expenses, including a non-recurring, one-time charge for common area maintenance associated with our previously occupied Boston, Massachusetts lease and rent expense incurred for both the new and previous Boston, Massachusetts facilities. There was also a $0.4 million increase in advisory printed enrollment materials expense, due primarily to a decrease in amount of costs capitalized for direct response advertising. As a percentage of revenue, sales and marketing expense increased from 17% for the three months ended September 30, 2013 to 18% for the three months ended September 30, 2014. The increase as a percentage of revenue was due primarily to facilities-related overhead expenses increasing at a faster rate than revenue during the period. We expect printed enrollment materials expense will increase in the next fiscal year as we implement design and content changes for some of our enrollment campaigns. We also anticipate adding additional resources in areas such as product development and marketing, which will increase expenses in 2015.

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General and Administrative

General and administrative expense increased $0.1 million, or 3%, from $5.4 million for the three months ended September 30, 2013 to $5.5 million for the three months ended September 30, 2014. There was a $0.3 million increase in professional services expense for the three months ended September 30, 2014 compared to the three months ended September 30, 2013. There was also an increase in facilities-related allocated overhead expenses, including rent and depreciation, of $0.1 million. These increases were partially offset by a decrease in cash incentive compensation of $0.2 million and a decrease in non-cash stock-based compensation of $0.1 million. As a percentage of revenue, general and administrative expense decreased from 9% for the three months ended September 30, 2013 to 7% for the three months ended September 30, 2014. The decrease as a percentage of revenue was due primarily to decreases in non-cash stock-based compensation expense and cash incentive compensation expense relative to the increase in revenue during the same period.

Income Taxes

Income tax expense increased from $4.6 million for the three months ended September 30, 2013 to $6.0 million for the three months ended September 30, 2014 due primarily to an increase in taxable income, as well as a decrease in excess tax benefits associated with disqualifying stock dispositions.

Our effective tax rate was 36% for the three months ended September 30, 2013 compared to 40% for the three months ended September 30, 2014. We would expect to see an effective tax rate of approximately 40%, excluding the effect of research and development credits, any changes in valuation allowances, and discrete items such as disqualifying stock dispositions in future periods.

As of September 30, 2014, we continue to believe that sufficient positive evidence exists from historical operations and future projections to conclude that it is more likely than not to fully realize our federal deferred tax assets and to partially realize our State of California deferred tax assets in future periods. We continuously evaluate additional facts representing positive and negative evidence in the determination of the realizability of the deferred tax assets. We continue to apply a valuation allowance on certain deferred tax assets in the amount of $0.3 million as of September 30, 2014 relating to net operating losses for the State of California as it is not more likely than not that we will be able to realize these assets prior to their expiration.

Comparison of Nine Months Ended September 30, 2013 and 2014

	Nine Months Ended September 30,		Nine Months Ended September 30,		Increase (Decrease)	
	2013	2014	2013	2014	Amount	%
	(As a percentage of revenue)		(In thousands, except percentages)			
Revenue:						
Professional management	84%	87%	$ 146,453	$ 181,030	$ 34,577	24%
Platform	15	12	24,987	24,828	(159)	(1)
Other	1	1	2,290	2,559	269	12
Total revenue	100	100	173,730	208,417	34,687	20
Costs and expenses:						

Cost of revenue (exclusive of amortization of internal use software)	39	40	67,117	83,436	16,319	24
Research and development	13	11	22,527	22,392	(135)	(1)
Sales and marketing	18	18	31,692	36,607	4,915	16
General and administrative	9	8	15,367	16,995	1,628	11
Amortization of internal use software	3	2	4,993	4,709	(284)	(6)
Total costs and expenses	82	79	141,696	164,139	22,443	16
Income from operations	18	21	32,034	44,278	12,244	38
Interest income, net			29	121	92	317
Other income (expense), net			(10)	(1)	9	(90)
Income before income tax expense	18	21	32,053	44,398	12,345	39
Income tax expense	6	8	11,372	17,520	6,148	54
Net income	12%	13%	$ 20,681	$ 26,878	$ 6,197	30%

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Revenue

Total revenue increased $34.7 million, or 20%, from $173.7 million for the nine months ended September 30, 2013 to $208.4 million for the nine months ended September 30, 2014. This increase was due primarily to growth in professional management revenue of $34.6 million for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013, as well as growth of $0.3 million in other revenue, offset by a $0.2 million decrease in platform revenue. Professional management revenue and platform revenue comprised 87% and 12%, respectively, of total revenue for the nine months ended September 30, 2014.

Professional Management Revenue

Professional management revenue increased $34.6 million, or 24%, from $146.5 million for the nine months ended September 30, 2013 to $181.0 million for the nine months ended September 30, 2014. This increase was due primarily to an increase in the average AUM used to calculate fees from approximately $74.3 billion for the nine months ended September 30, 2013 to approximately $95.6 billion for the nine months ended September 30, 2014. This increase in average AUM was driven primarily by increased net enrollment resulting from marketing campaigns and other ongoing member acquisitions, contributions, and market appreciation.

Platform Revenue

Platform revenue decreased $0.2 million, or 1%, from $25.0 million for the nine months ended September 30, 2013 to $24.8 million for the nine months ended September 30, 2014. This decrease was due primarily to a reduction in the amount of platform revenue we receive as a result of a small number of sponsors converting to a subadvisory plan provider, as well as platform fee reductions as a result of sponsors adding new asset-based professional management services. These decreases were partially offset by an increase in platform fees due to service availability at new sponsors.

Other Revenue

Other revenue increased $0.3 million, or 12%, from $2.3 million for the nine months ended September 30, 2013 to $2.6 million for the nine months ended September 30, 2014. This increase was due primarily to an increase in reimbursable printed fulfillment materials from certain subadvisory relationships.

Costs and Expenses

Costs and expenses increased $22.4 million, or 16%, from $141.7 million for the nine months ended September 30, 2013 to $164.1 million for the nine months ended September 30, 2014. This increase was due to a $16.3 million increase in cost of revenue, exclusive of amortization of internal use software, a $0.1 million decrease in research and development expense, a $4.9 million increase in sales and marketing expense, a $1.6 million increase in general and administrative expense and a $0.3 million decrease in amortization of internal use software for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013.

Across functional areas, wages, benefits and employer payroll tax expenses increased for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013 due primarily to headcount growth and annual compensation increases effective April 1, 2014. Cash incentive compensation expense decreased across all functional areas for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013 as a result of anticipating lower cash incentive plan percentage achievement for the year ended December 31, 2014 compared to the year ended December 31, 2013. We anticipate this trend will continue for the remainder of the year ended December 31, 2014. Non-cash stock-based compensation expense increased due primarily to equity awards granted within the last year. Our equity awards generally vest over four years under the graded-vesting attribution method, resulting in greater amounts of compensation expense recognized in earlier periods of the awards with declining amounts recognized in later periods.

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Cost of Revenue

Cost of revenue, exclusive of amortization of internal use software, increased $16.3 million, or 24%, from $67.1 million for the nine months ended September 30, 2013 to $83.4 million for the nine months ended September 30, 2014. There was a $10.6 million increase in fees paid to plan providers for connectivity to plan and plan participant data for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013, due primarily to an increase in professional management revenue and, to a lesser extent, to modifications to a provider relationship, which extended the initial term and made other changes intended to better align the respective interests of the parties. In addition, there was an increase of $2.2 million in wages, benefits, employer payroll tax and allocated human resources expenses, as well as an increase in non-cash stock-based compensation expense of $1.0 million. There was also an increase in printed marketing materials and printed member materials expense for subadvisory relationships of $1.8 million, as subadvisory participant campaign volume was higher for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013. Facilities related overhead expenses, included rent and depreciation, increased $1.0 million, and other expense, such as equipment and production expenses, increased $0.6 million. These increases were partially offset by a $0.6 million decrease in cash incentive compensation and a $0.3 million decrease in consulting and professional services expenses. As a percentage of revenue, cost of revenue increased from 39% for the nine months ended September 30, 2013 to 40% for the nine months ended September 30, 2014 due primarily to data connectivity fees expense increasing at a faster rate than revenue due to the aforementioned modifications to a provider relationship.

Research and Development

Research and development expense decreased $0.1 million, or 1%, from $22.5 million for the nine months ended September 30, 2013 to $22.4 million for the nine months ended September 30, 2014. There was a $0.9 million increase in non-cash stock-based compensation expenses for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013. In addition, the amount of internal use software capitalized decreased by $0.6 million as more developer hours were dedicated to updating and maintaining existing core services. In addition, wages, benefits, employer payroll tax and allocated human resources expenses increased $0.6 million. These increases were offset by a $1.8 million decrease in cash incentive compensation expense, as well as a $0.2 million decrease in facilities related overhead expenses, including rent and depreciation, as headcount grew at a slower rate than other functional areas between the comparable periods, as well as a $0.2 million decrease in consulting expense. As a percentage of revenue, research and development expense decreased from 13% for the nine months ended September 30, 2013 to 11% for the nine months ended September 30, 2014. The decrease as a percentage of revenue was due primarily to a decrease in cash incentive compensation expenses, as well as a slower increase in wages, benefits, employer payroll tax and allocated human resources expenses relative to the increase in revenue during the same period.

Sales and Marketing

Sales and marketing expense increased $4.9 million, or 16%, from $31.7 million for the nine months ended September 30, 2013 to $36.6 million for the nine months ended September 30, 2014. There was a $2.4 million increase in wages, benefits, employer payroll tax and allocated human resources expenses and a $1.5 million increase in non-cash stock-based compensation expense for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013. In addition, facilities related overhead expenses increased $1.0 million, including a non-recurring, one-time charge for common area maintenance associated with our previously occupied Boston, Massachusetts lease, and rent expense incurred for both the new and previous Boston, Massachusetts facilities for the third quarter. There was also a $0.7 million increase in advisory printed enrollment materials expense, due primarily to a decrease in amount of costs capitalized for direct response advertising as the volume of printed material decreased. There was a $0.3 million increase in other expenses, including recruiting expenses and general marketing programs. These increases were partially offset by a $1.0 million decrease in cash incentive compensation expense. As a percentage of revenue, sales and marketing expense remained constant at 18% for the nine months ended September 30, 2013 and 2014.

General and Administrative

General and administrative expense increased $1.6 million, or 11%, from $15.4 million for the nine months ended September 30, 2013 to $17.0 million for the nine months ended September 30, 2014. There was a $0.8 million increase in non-cash stock-based compensation expense due primarily to awards to certain executives in February 2014. In addition, there was a $0.8 million increase in wages, benefits, employer payroll tax and allocated human resource expense for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013. Facilities-related allocated overhead expenses, including rent and depreciation, increased $0.3 million, professional services expenses increased $0.4 million and other expenses increased $0.1 million. These increases were partially offset by a $0.6 million decrease in cash incentive compensation expense, as well as a $0.2 million decrease in equipment related expenses. As a percentage of revenue, general and administrative expense decreased from 9% for the nine months ended September 30, 2013 to 8% for the nine months ended September 30, 2014. The decrease as a percentage of revenue was due primarily to a decrease in cash incentive compensation relative to the increase in revenue during the same period.

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Amortization of Internal Use Software

Amortization of internal use software decreased $0.3 million, or 6%, from $5.0 million for the nine months ended September 30, 2013 to $4.7 million for the nine months ended September 30, 2014, as there were more developer hours dedicated to updating and maintaining existing core services, which are not capitalized as internal use software, in recent periods.

Income Taxes

Income tax expense increased from $11.4 million for the nine months ended September 30, 2013 to $17.5 million for the nine months ended September 30, 2014 due primarily to an increase in taxable income, as well as a decrease in excess tax benefits associated with disqualifying stock dispositions and a legislative change in the nine months ended September 30, 2013 that resulted in the recognition of the benefit related to the 2012 and 2013 research and development credits in the nine months ended September 30, 2013. The research and development credit was not reinstated for fiscal year 2014.

Our effective tax rate was 35% for the nine months ended September 30, 2013 compared to 39% for the nine months ended September 30, 2014. We would expect to see an effective tax rate of approximately 40%, excluding the effect of research and development credits, any changes in valuation allowances, and discrete items such as disqualifying stock dispositions in future periods.

Non-GAAP Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings Per Share

Adjusted EBITDA represents net income before net interest expense (income), income tax expense (benefit), depreciation, amortization of internal use software, amortization of direct response advertising, amortization of deferred sales commissions and amortization of non-cash stock-based compensation expense. Adjusted Net Income represents net income before non-cash stock-based compensation expense, net of tax and certain other items such as the income tax benefit from the release of valuation allowances, if applicable for the period. Adjusted Earnings Per Share is defined as Adjusted Net Income divided by the weighted average of dilutive common share equivalents outstanding.

Our management uses Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings 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. Adjusted EBITDA, among other factors, was used for the year ended December 31, 2013 and will be used for the year ended December 31, 2014 when determining cash incentive compensation for employees, including management.

We also present Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings Per Share as supplemental performance measures because we believe that these measures provide our Board of Directors, management and investors with additional information to measure our performance. Adjusted EBITDA provides comparisons from period to period by excluding potential differences caused by variations in income taxes, the age and book depreciation of fixed assets (affecting relative depreciation expense) and amortization of internal use software, direct response advertising and commissions, and changes in interest expense and interest income that are influenced by capital structure decisions and capital market conditions. Management also believes it is useful to exclude non-cash stock-based compensation expense from Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings Per Share because non-cash equity awards made at a certain price and point in time, as well as certain other items such as the income tax benefit from the release of valuation allowances, do not necessarily reflect how our business is performing at any particular time.

Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings Per Share are not measurements of our financial performance under GAAP and should not be considered as an alternative to net income, operating income, earnings per share 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.

We understand that, although Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings Per Share are frequently used by securities analysts, lenders and others in their evaluation of companies, Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings Per Share have limitations as an analytical tool, 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 EBITDA, Adjusted Net Income and Adjusted Earnings Per Share do not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments;

- Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings Per Share do not reflect changes in, or cash requirements for, our working capital needs;

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Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings Per Share do not reflect the non-cash component of employee compensation;

Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized generally will have to be replaced in the future by payment of cash, and Adjusted EBITDA does not reflect any cash requirements for such replacements; and

Other companies in our industry may calculate Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings Per Share differently than we do, limiting their usefulness as a comparative measure.

Given the limitations associated with using Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings Per Share, these financial measures should be considered in conjunction with our financial statements presented in accordance with GAAP and the reconciliation of Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings Per Share to the most directly comparable GAAP measure, net income. Further, management also reviews GAAP measures and evaluates individual measures that are not included in Adjusted EBITDA, such as our level of capital expenditures, equity issuance and interest expense, among other measures.

The table below sets forth a reconciliation of net income to non-GAAP Adjusted EBITDA based on our historical results:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	**2014**	**2013**	**2014**
Non-GAAP Adjusted EBITDA	**(In thousands, unaudited)**			
Net income	$ 8,146	$ 9,007	$ 20,681	$ 26,878
Interest income, net	(19)	(44)	(29)	(121)
Income tax expense	4,581	6,014	11,372	17,520
Depreciation and amortization	967	1,261	2,888	3,493
Amortization of internal use software	1,534	1,479	4,679	4,432
Amortization and impairment of direct response advertising	1,521	1,534	4,491	4,631
Amortization of deferred sales commissions	465	369	1,432	1,173
Stock-based compensation	4,232	4,895	10,442	14,745
Non-GAAP Adjusted EBITDA	$ 21,427	$ 24,515	$ 55,956	$ 72,751

The table below sets forth a reconciliation of net income to non-GAAP Adjusted Net Income and non-GAAP Adjusted Earnings Per Share based on our historical results:

	Three Months Ended September 30,	Nine Months Ended September 30,

Non-GAAP Adjusted Net Income	2013	2014	2013	2014
	(In thousands, except per share data, unaudited)			
Net income	$ 8,146	$ 9,007	$ 20,681	$ 26,878
Stock-based compensation, net of tax (1)	2,615	3,025	6,453	9,112
Non-GAAP Adjusted Net Income	$ 10,761	$ 12,032	$ 27,134	$ 35,990
Non-GAAP Adjusted Earnings Per Share	$ 0.20	$ 0.23	$ 0.52	$ 0.68
Shares of common stock outstanding	49,934	51,811	49,145	51,481
Dilutive stock options, RSUs and PSUs	2,743	1,501	2,929	1,805
Non-GAAP adjusted common shares outstanding	52,677	53,312	52,074	53,286

(1) For the calculation of non-GAAP Adjusted Net Income, an estimated statutory tax rate of 38.2% has been applied to non-cash stock-based compensation for all periods presented.

For the non-GAAP metrics above, the variances in the comparable periods are consistent with the GAAP variances discussed in the Comparisons of Three and Nine months Ended September 30, 2013 and 2014 as presented above in our Management s Discussion and Analysis of Financial Condition and Results of Operations .

Liquidity and Capital Resources

Sources of Liquidity

Over the next twelve months, and in the longer term, we expect that our cash and liquidity needs will be met by existing resources, consisting of cash, cash equivalents and short-term investments and cash generated from ongoing operations.

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Historically, our operations have been financed through the sale of equity securities, including net cash proceeds in connection with our initial public offering of common stock completed on March 16, 2010 of approximately $79.0 million, after deducting underwriting discounts and offering costs, and more recently from cash flows from operations. As of September 30, 2014, we had total cash, cash equivalents and short term investments of $295.9 million, compared to $246.0 million as of December 31, 2013.

Consolidated Cash Flow Data

	Nine Months Ended September 30,	
	2013	2014
	(In thousands)	
Net cash provided by operating activities	$ 39,003	$ 47,297
Net cash used in investing activities	(95,679)	(53,726)
Net cash provided by financing activities	17,394	11,466
Net increase (decrease) in cash and cash equivalents	$ (39,282)	$ 5,037
Cash and cash equivalents, end of period	$ 141,949	$ 131,040

Operating Activities

Operating activities for the nine months ended September 30, 2014 resulted in cash provided of $47.3 million, as net income of $26.9 million and adjustments for non-cash expenses of $25.5 million, primarily related to amortization of non-cash stock-based compensation, deferred tax assets, amortization and impairment of direct response advertising, and amortization of internal use software, as well as the excess tax benefit associated with stock-based compensation, offset by a decrease in cash related to changes in operating assets and liabilities of $5.1 million. The decrease in cash related to operating assets and liabilities was due primarily to an increase in accounts receivable driven by an increase in revenue, a decrease in accrued compensation as a result of anticipating lower cash incentive plan percentage achievement for the year ended December 31, 2014 compared to the year ended December 31, 2013, capitalized direct-response advertising and an increase in other assets, offset by an increase in accounts payable due primarily to an increase in excess tax benefits associated with stock-based compensation.

Operating activities for the nine months ended September 30, 2013 resulted in cash provided of $39.0 million, as net income of $20.7 million and adjustments for non-cash expenses of $29.8 million, primarily related to amortization of non-cash stock-based compensation, amortization of internal use software, and amortization and impairment of direct response advertising, offset by a decrease in cash related to changes in operating assets and liabilities of $11.4 million. The decrease in cash related to operating assets and liabilities was due primarily to an increase in accounts receivable driven by an increase in revenue and the capitalization of direct response advertising, offset by a decrease in deferred tax assets due to utilization and an increase in accounts payable due to an increase in expenses.

In March 2014, the Company entered into an operating lease for a new Boston, Massachusetts facility. We expect to incur reduced facilities cash outflows during the period of February 2015 through March 2017, as this new facility lease provides for a free-rent period.

Investing Activities

Net cash used in investing activities was $53.7 million for the nine months ended September 30, 2014 compared to $95.7 million for the nine months ended September 30, 2013. For the nine months ended September 30, 2014, cash used for the purchase of short-term investments was $134.9 million, offset by maturities of $90.0 million. The purchase of property and equipment increased $3.1 million, and as a result, we spent $6.1 million related to capital expenditures during the nine months ended September 30, 2014 compared to $3.1 million for the nine months ended September 30, 2013. This increase was due primarily to capital equipment and leasehold improvements associated with the build-out of the new Boston, Massachusetts facility. We expect non-reimbursable cash expenditures associated with capital equipment purchases related to the build-out of the facility to be approximately $4.0 million over the estimated period of April through October 2014, with $1.2 million of payments incurred for the nine months ended September 30, 2014 and the remainder to be paid in the fourth quarter of 2014. For the nine months ended September 30, 2014, the amount of internal use software costs we capitalized decreased to $2.7 million compared to $3.3 million for the nine months ended September 30, 2013, as more non-capitalized developer hours were dedicated to updating and maintaining existing core services. For the three months ended September 30, 2013, there was $0.8 million of cash that became unrestricted as our bank removed the collateral requirements associated with the letters of credit related to our operating facilities.

Financing Activities

Net cash provided by financing activities was $11.5 million for the nine months ended September 30, 2014 compared to net cash provided by financing activities of $17.4 million for the nine months ended September 30, 2013. For the nine months ended September 30, 2014, we received $10.0 million of proceeds from the issuance of common stock due to the exercise of stock options compared to $19.5 million during the nine months ended September 30, 2013. Excess tax benefit associated with stock-based compensation increased to $10.3 million for the nine months ended September 30, 2014 compared to $2.8 million for the nine months ended September 30, 2013 due to an increase in the amount of stock-based compensation offsetting cash income taxes.

For the nine months ended September 30, 2014, we incurred cash dividend payments totaling $8.7 million, and incurred a subsequent payment of $3.1 million in October 2014 relating to dividends payable as of September 30, 2014. For the nine months ended September 30, 2013, we incurred cash dividend payments totaling $4.9 million, starting in the second quarter of 2013 with the commencement of our dividend payments. Any future determination with respect to the declaration and payment of dividends will be at the discretion of our Board of Directors.

We expect to incur cash payments in an amount necessary to satisfy the minimum tax withholding obligations for restricted stock units previously granted to employees that vest in November 2014, which will be determined based on the fair value of our common stock and applicable tax rates on the vesting date. Based on the fair value of our common stock as of September 30, 2014 of $34.22 and assuming a 40% tax rate, the estimated minimum tax withholding obligations would be approximately $2.0 million. We anticipate this type of cash payment to occur each year in November, with the payment amounts determined by the number of shares released, the fair value of our common stock and applicable tax rates at that point in time.

On November 5, 2014, our Board of Directors approved a stock repurchase program of up to $50 million of our common stock over the next twelve months. The stock repurchase program may be modified, extended or terminated by our Board at any time and there is no guarantee as to the exact number of shares, if any, that will be repurchased under the program. The stock repurchase program is expected be funded by available working capital. See Recent Developments.

Off-Balance Sheet Arrangements

As of September 30, 2014, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K promulgated by the SEC, that have or are reasonably likely to have a current or future effect on our financial condition, changes in our financial condition, revenues, or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to investors.

Item 3. ***Quantitative and Qualitative Disclosures about Market Risk***

Market Risk

Our exposure to market risk is directly related to our role as an investment manager for investor accounts for which we provide portfolio management services. For the nine months ended September 30, 2014, 87% of our revenue was derived from fees based on the market value of AUM compared to 85% for the year ended December 31, 2013. In general, we expect the percentage of revenue that is derived from fees based on the market value of AUM to increase over time.

A substantial portion of the assets we manage is invested in equity securities, the market prices of which can vary substantially based on changes in economic conditions. An additional portion is invested in fixed income securities, which will generally have lower volatility than the equity market. Therefore, while any changes in equity market performance would significantly affect the value of our AUM, particularly for the AUM invested in equity securities, such changes would typically result in lower volatility for our AUM than the volatility of the equity market as a whole. Because a substantial portion of our revenue is derived from the value of our AUM, any changes in fixed income or equity market performance would significantly affect the amount of revenue in a given period. If any of these factors reduces our AUM, the amount of member fees we would earn for managing those assets would decline, which in turn could negatively impact our revenue.

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Item 4. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (or the Exchange Act)) as of the end of the period covered by this report. Based on their evaluation, our Chief Executive Officer (our principal executive officer) and our Chief Financial Officer (our principal financial officer) have concluded that our disclosure controls and procedures as of the end of the period covered by this report were designed and were functioning effectively at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1A. Risk Factors

You should carefully review and consider the information regarding certain factors that could materially affect our business, financial condition or future results set forth under Part I Item 1A (Risk Factors) in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013. There have been no material changes from the risk factors disclosed in our 2013 Annual Report on Form 10-K.

Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds*

Unregistered Sales of Equity Securities

For the three months ended September 30, 2014, we issued 208,998 shares of unregistered common stock for an aggregate purchase price of $1.6 million upon the exercise of previously granted options which was paid in cash. These transactions were effected under Rule 701 of the Securities Act of 1933, applicable to our 1998 Stock Option Plan. All recipients either received adequate information about us or had access, through employment or other relationships, to such information. There were no underwriters employed in connection with these transactions.

Item 6. *Exhibits*

Exhibit Number	Description
3.(i)	Restated Certificate of Incorporation of the Registrant (filed as Exhibit 3.1 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, and incorporated herein by reference).
3.(ii)	Bylaws of the Registrant (filed as Exhibit 3.(ii)2 to the Registrant s Registration Statement on Form S-1, file no. 333-163581, and incorporated herein by reference).
4.1	Specimen Common Stock Certificate (filed as Exhibit 4.1 to the Registrant s Registration Statement on Form S-1, file no. 333-163581, and incorporated herein by reference).
31.1	Certificate of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
31.2	Certificate of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
32.1(1)	Certificate of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
32.2(1)	Certificate of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document

101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

(1) The material contained in Exhibit 32.1 and Exhibit 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 (the Securities Act) or the Securities Exchange Act of 1934 (the Exchange Act), 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.

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SIGNATURES

Pursuant to the requirements 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.

Date: November 10, 2014

FINANCIAL ENGINES, INC.

/s/ Jeffrey N. Maggioncalda
Jeffrey N. Maggioncalda
Chief Executive Officer
(Duly authorized officer and principal executive officer)

/s/ Raymond J. Sims
Raymond J. Sims
Executive Vice President, Chief Financial Officer and
Chief Risk Officer
(Duly authorized officer and principal financial officer)

/s/ Jeffrey C. Grace
Jeffrey C. Grace
VP, Controller and Principal Accounting Officer
(Duly authorized officer and principal accounting officer)

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Exhibit Index

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31.1	Certificate of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
31.2	Certificate of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
32.1(1)	Certificate of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
32.2(1)	Certificate of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

(1) The material contained in Exhibit 32.1 and Exhibit 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 (the Securities Act) or the Securities Exchange Act of 1934 (the Exchange Act), 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.