

WisdomTree Investments, Inc.
Form 10-Q
November 07, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the transition period from _____ to _____.

Commission File Number 001-10932

WisdomTree Investments, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-3487784
(IRS Employer
Identification No.)

245 Park Avenue, 35th Floor

New York, New York
(Address of principal executive officers)

10167
(Zip Code)

212-801-2080

(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, as amended (the Exchange Act) during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

As of October 31, 2014, there were 133,492,949 shares of the registrant's Common Stock, \$0.01 par value per share, outstanding (voting shares).

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WISDOMTREE INVESTMENTS, INC.

Form 10-Q

For the Quarterly Period Ended September 30, 2014

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements that are based on our management's belief and assumptions and on information currently available to our management. Although we believe that the expectations reflected in these forward-looking statements are reasonable, these statements relate to future events or our future financial performance, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

In some cases, you can identify forward-looking statements by terminology such as may, will, should, expects, intends, plans, anticipates, believes, estimates, predicts, potential, continue or the negative of these terms or comparable terminology. These statements are only predictions. You should not place undue reliance on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which are, in some cases, beyond our control and which could materially affect results. Factors that may cause actual results to differ materially from current expectations include, among other things, those listed in the section entitled Risk Factors included in this Report and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013. If one or more of these risks or uncertainties occur, or if our underlying assumptions prove to be incorrect, actual events or results may vary significantly from those implied or projected by the forward-looking statements. No forward-looking statement is a guarantee of future performance. You should read this Report and the documents that we reference in this Report and have filed with the Securities and Exchange Commission (SEC) as exhibits to this Report, completely and with the understanding that our actual future results may be materially different from any future results expressed or implied by these forward-looking statements.

In particular, forward-looking statements in this Report include statements about:

anticipated trends, conditions and investor sentiment in the global markets and exchange traded products (ETPs);

anticipated levels of inflows into and outflows out of our ETPs;

our ability to deliver favorable rates of return to investors;

our ability to develop new products and services;

our ability to maintain current vendors or find new vendors to provide services to us at favorable costs;

our ability to successfully expand our business into non-U.S. markets;

timing of payment of our cash income taxes;

competition in our business; and

the effect of laws and regulations that apply to our business.

The forward-looking statements in this Report represent our views as of the date of this Report. We anticipate that subsequent events and developments may cause our views to change. However, while we may elect to update these forward-looking statements at some point in the future, we have no current intention of doing so except to the extent required by applicable law. Therefore, these forward-looking statements do not represent our views as of any date other than the date of this Report.

Table of Contents**PART I: FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****WisdomTree Investments, Inc. and Subsidiaries**

Consolidated Balance Sheets

(In Thousands, Except Per Share Amounts)

	September 30, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 151,287	\$ 104,316
Accounts receivable	16,268	18,100
Other current assets	2,208	1,320
Total current assets	169,763	123,736
Fixed assets, net	10,263	6,252
Investments	12,224	11,748
Deferred tax asset, net	8,253	
Goodwill	1,676	
Other noncurrent assets	56	55
Total assets	\$ 202,235	\$ 141,791
Liabilities and stockholders equity		
Liabilities:		
Current liabilities:		
Fund management and administration payable	\$ 8,833	\$ 10,394
Compensation and benefits payable	7,062	14,278
Accounts payable and other liabilities	4,956	4,384
Total current liabilities	20,851	29,056
Acquisition payable	1,757	
Deferred rent payable	5,326	3,706
Total liabilities	27,934	32,762
Stockholders equity:		
Preferred stock, par value \$0.01; 2,000 shares authorized	1,335	1,322

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Common stock, par value \$0.01; 250,000 shares authorized; issued: 133,516 and 132,247; outstanding: 131,947 and 130,350		
Additional paid-in capital	198,040	184,201
Accumulated other comprehensive loss	(9)	
Accumulated deficit	(25,065)	(76,494)
Total stockholders' equity	174,301	109,029
Total liabilities and stockholders' equity	\$ 202,235	\$ 141,791

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**WisdomTree Investments, Inc. and Subsidiaries**

Consolidated Statements of Operations and Comprehensive Income

(In Thousands, Except Per Share Amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2014	2013	2014	2013
Revenues:				
Advisory fees	\$ 46,942	\$ 39,437	\$ 133,489	\$ 105,691
Other income	172	193	673	611
Total revenues	47,114	39,630	134,162	106,302
Expenses:				
Compensation and benefits	9,990	9,648	26,896	26,577
Fund management and administration	8,465	8,794	25,451	26,123
Marketing and advertising	3,341	2,031	8,645	6,164
Sales and business development	1,279	1,305	4,307	4,626
Professional and consulting fees	1,383	542	5,018	1,812
Occupancy, communications, and equipment	882	723	2,635	1,691
Depreciation and amortization	207	84	600	249
Third-party sharing arrangements	187	374	312	913
Other	1,123	1,164	3,429	3,086
Total expenses	26,857	24,665	77,293	71,241
Income before taxes	20,257	14,965	56,869	35,061
Income tax	9,634		5,440	
Net income	\$ 10,623	\$ 14,965	\$ 51,429	\$ 35,061
Net income per share basic	\$ 0.08	\$ 0.12	\$ 0.39	\$ 0.28
Net income per share diluted	\$ 0.08	\$ 0.11	\$ 0.37	\$ 0.25
Weighted-average common shares basic	131,778	126,509	131,418	125,909
Weighted-average common shares diluted	138,346	140,097	138,476	139,805
Other comprehensive income				
Net income	\$ 10,623	\$ 14,965	\$ 51,429	\$ 35,061
Foreign currency translation adjustment	(9)		(9)	

Comprehensive income	\$ 10,614	\$ 14,965	\$ 51,420	\$ 35,061
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The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**WisdomTree Investments, Inc. and Subsidiaries**

Consolidated Statements of Cash Flows

(In Thousands)

(Unaudited)

	Nine Months Ended	
	September 30,	September 30,
	2014	2013
Cash flows from operating activities:		
Net income	\$ 51,429	\$ 35,061
Non-cash items included in net income:		
Income tax	5,396	
Depreciation and amortization	600	249
Stock-based compensation	6,122	5,186
Deferred rent	1,620	111
Accretion to interest income and other	(76)	108
Changes in operating assets and liabilities:		
Accounts receivable	2,049	(3,683)
Other assets	(811)	(720)
Fund management and administration payable	(1,579)	3,697
Compensation and benefits payable	(7,510)	7,235
Accounts payable and other liabilities	(590)	471
Net cash provided by operating activities	56,650	47,715
Cash flows from investing activities:		
Purchase of fixed assets	(4,580)	(1,118)
Purchase of investments	(1,384)	(3,358)
Cash acquired on acquisition	1,349	
Proceeds from the redemption of investments	868	2,693
Net cash used in investing activities	(3,747)	(1,783)
Cash flows from financing activities:		
Shares repurchased	(6,259)	(1,413)
Proceeds from exercise of stock options	341	1,349
Net cash used in financing activities	(5,918)	(64)
Decrease in cash flows due to changes in foreign exchange rate	(14)	
Net increase in cash and cash equivalents	46,971	45,868
Cash and cash equivalents beginning of period	104,316	41,246
Cash and cash equivalents end of period	\$ 151,287	\$ 87,114

Supplemental disclosure of cash flow information:

Cash paid for taxes	\$	66	\$	33
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The accompanying notes are an integral part of these consolidated financial statements.

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WisdomTree Investments, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(In Thousands, Except Share and Per Share Amounts)

1. Organization and Description of Business

WisdomTree Investments, Inc., through its subsidiaries in the U.S., U.K., Jersey and Ireland (collectively, WisdomTree or the Company), is an ETP sponsor and asset manager headquartered in New York. WisdomTree offers ETPs covering equity, fixed income, currency, alternative and commodity asset classes. The Company has the following operating subsidiaries:

WisdomTree Asset Management, Inc. (WTAM) is a New York based investment adviser registered with the SEC providing investment advisory and other management services to WisdomTree Trust (WTT) and WisdomTree exchange traded funds (ETFs).

Boost Management Limited (BML or Boost) is a Jersey based investment manager providing investment and other management services to Boost Issuer PLC (BI) and Boost ETPs.

WisdomTree Europe Limited (WisdomTree Europe) is a U.K. based company registered with the Financial Conduct Authority providing management and other services to BML and WTML.

WisdomTree Management Limited (WTML) is an Ireland based investment manager providing investment and other management services to WisdomTree Issuer PLC (WTI) and WisdomTree UCITS ETFs. The WisdomTree ETFs are issued in the U.S. by WTT. WTT, a non-consolidated third party, is a Delaware statutory trust registered with the SEC as an open-end management investment company. The Company has licensed the use of certain of its own indexes on an exclusive basis in the U.S. to WTT for the WisdomTree ETFs. The Boost ETPs are issued by BI. BI, a non-consolidated third party, is a public limited company organized in Ireland. The WisdomTree UCITS ETFs are issued by WTI. WTI, a non-consolidated third party, is a public limited company organized in Ireland.

The Board of Trustees and Board of Directors of WTT, BI and WTI, respectively, are separate from the Board of Directors of the Company. The Trustees and Directors of WTT, BI and WTI respectively, are primarily responsible for overseeing the management and affairs of the WisdomTree ETFs, Boost ETPs and the WisdomTree UCITS ETFs for the benefit of the WisdomTree ETF, Boost ETP and the WisdomTree UCITS ETF shareholders, respectively, and have contracted with the Company to provide for general management and administration services. The Company, in turn, has contracted with third parties to provide the majority of these administration services. In addition, certain officers of the Company provide general management services for WTT, BI and WTI.

2. Significant Accounting Policies

Basis of Presentation

These consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) and in the opinion of management reflect all adjustments, consisting of only normal recurring adjustments, necessary for a fair statement of financial condition, results of operations, and cash flows for the periods presented. The consolidated financial statements include the accounts of the Company's wholly owned subsidiaries.

All intercompany accounts and transactions have been eliminated in consolidation. Certain accounts in the prior years consolidated financial statements have been reclassified to conform to the current year's consolidated financial statements presentation. These reclassifications had no effect on the previously reported operating results.

Foreign Currency Translation

Assets and liabilities of subsidiaries whose functional currency is not the U.S. dollar are translated based on the end of period exchange rates from local currency to U.S. dollars. Results of operations are translated at the average exchange rates in effect during the period.

Table of Contents***Use of Estimates***

The preparation of the Company's consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the balance sheet dates and the reported amounts of revenues and expenses for the periods presented. Actual results could differ materially from those estimates.

Revenue Recognition

The Company earns investment advisory fees as well as licensing fees from third parties. Advisory fees are based on a percentage of the ETPs average daily net assets and recognized over the period the related service is provided. Licensing fees are based on a percentage of the average monthly net assets and recognized over the period the related service is provided.

Depreciation and Amortization

Depreciation is provided for using the straight-line method over the estimated useful lives of the related assets as follows:

Equipment	5 years
Furniture and fixtures	15 years

Leasehold improvements are amortized over the term of their respective leases or service lives of the improvements, whichever is shorter. Fixed assets are stated at cost less accumulated depreciation and amortization.

Marketing and Advertising

Advertising costs, including media advertising and production costs are expensed when incurred.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of 90 days or less at the time of purchase to be classified as cash equivalents. Cash and cash equivalents are held primarily with one large financial institution.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are customer and other obligations due under normal trade terms. An allowance for doubtful accounts is not provided since, in the opinion of management, all accounts receivable recorded are deemed collectible.

Impairment of Long-Lived Assets

On a periodic basis, the Company performs a review for the impairment of long-lived assets when events or changes in circumstances indicate that the estimated undiscounted future cash flows expected to be generated by the assets are less than their carrying amounts or when other events occur which may indicate that the carrying amount of an asset may not be recoverable.

Earnings per Share

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the reduction in earnings per share assuming options or other contracts to issue common stock were exercised or converted into common stock.

Investments

The Company accounts for all of its investments as held-to-maturity, which are recorded at amortized cost. For held-to-maturity investments, the Company has the intent and ability to hold investments to maturity and it is not more-likely-than-not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity.

On a periodic basis, the Company reviews its portfolio of investments for impairment. If a decline in fair value is deemed to be other-than-temporary, the security is written down to its fair value through earnings.

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Goodwill

Goodwill is the excess of the fair value of the purchase price over the fair values of the identifiable net assets at the acquisition date. The Company tests its goodwill for impairment at least annually. An impairment loss is triggered if the estimated fair value of the operating reporting unit is less than the estimated net book value. Such loss is calculated as the difference between the estimated fair value of goodwill and its carrying value.

Stock-Based Awards

Accounting for stock-based compensation requires the measurement and recognition of compensation expense for all equity awards based on estimated fair values. The Company accounts for stock-based compensation for its employees based on the cost of employee services received in exchange for a stock-based award. Stock-based compensation is measured based on the grant-date fair value of the award and are amortized over the relevant service period.

Stock-based awards granted to non-employees for goods or services are valued at the fair value of the equity instruments issued or the fair value of consideration received, whichever is a more reliable measure of the fair value of the transaction, and recognized when performance obligations are complete.

Income Taxes

The Company accounts for income taxes using the liability method, which requires the determination of deferred tax assets and liabilities based on the differences between the financial and tax basis of assets and liabilities using the enacted tax rates in effect for the year in which differences are expected to reverse. Deferred tax assets are adjusted by a valuation allowance if, based on the weight of available evidence, it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized.

In order to recognize and measure any unrecognized tax benefits, management evaluates and determines whether any of its tax positions are more-likely-than-not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Once it is determined that a position meets this recognition threshold, the position is measured to det