

WisdomTree Investments, Inc.  
Form 10-Q  
November 07, 2018  
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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, 2018**

**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, 35<sup>th</sup> 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 every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See definitions of large accelerated filer, accelerated filer, smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

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 November 2, 2018, there were 153,036,126 shares of the registrant's Common Stock, \$0.01 par value per share, outstanding.



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**WISDOMTREE INVESTMENTS, INC.**

**Form 10-Q**

**For the Quarterly Period Ended September 30, 2018**

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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 beliefs 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 our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 and Quarterly Report on Form 10-Q for the quarter ended March 31, 2018. If one or more of these or other 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, or the 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 may include statements about:

anticipated trends, conditions and investor sentiment in the global markets and exchange traded products, or 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;

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)*

|   | <b>September 30,<br/>2018<br/>(Unaudited)</b> | <b>December 31,<br/>2017</b> |
|---|---|------------------------------|
| <b>Assets</b>   |   |                              |
| Current assets:                                       |   |                              |
| Cash and cash equivalents                             | \$ 77,125                                     | \$ 54,193                    |
| Securities owned, at fair value                       | 4,426   | 66,294                       |
| Securities held-to-maturity                           |   | 1,000                        |
| Accounts receivable                                   | 25,528  | 21,309                       |
| Income taxes receivable                               |   | 6,978                        |
| Prepaid expenses                                      | 5,505   | 3,550                        |
| Other current assets                                  | 303   | 1,007                        |
| <b>Total current assets</b>                           | <b>112,887</b>                                | <b>154,331</b>               |
| Fixed assets, net                                     | 9,723   | 10,693                       |
| Note receivable, net (Note 8)                         | 28,121  | 18,748                       |
| Indemnification receivable (Note 20)                  | 35,654  |                              |
| Securities held-to-maturity                           | 20,199  | 20,299                       |
| Deferred tax assets, net                              | 2,213   | 1,050                        |
| Investments, carried at cost (Note 9)                 | 35,187  | 35,187                       |
| Goodwill (Note 22)                                    | 85,856  | 1,799                        |
| Intangible assets (Note 22)                           | 613,274                                       | 12,085                       |
| Other noncurrent assets                               | 2,304   | 793                          |
| <b>Total assets</b>                                   | <b>\$ 945,418</b>                             | <b>\$ 254,985</b>            |
| <b>Liabilities and stockholders equity</b>            |   |                              |
| <b>Liabilities</b>                                    |   |                              |
| Current liabilities:                                  |   |                              |
| Fund management and administration payable            | \$ 24,383                                     | \$ 20,099                    |
| Compensation and benefits payable                     | 13,728  | 28,053                       |
| Deferred consideration gold payments (Note 11)        | 11,788  |                              |
| Income taxes payable                                  | 799   |                              |
| Securities sold, but not yet purchased, at fair value | 2,018   | 950                          |
| Accounts payable and other liabilities                | 8,668   | 8,246                        |

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|  |                   |                   |
|--|-------------------|-------------------|
| Total current liabilities  | 61,384            | 57,348            |
| Long-term debt (Note 12)   | 193,999           |                   |
| Deferred consideration – gold payments (Note 11)   | 144,267           |                   |
| Deferred rent payable  | 4,462             | 4,686             |
| Other noncurrent liabilities (Note 20)   | 35,654            |                   |
| <b>Total liabilities</b>   | <b>439,766</b>    | <b>62,034</b>     |
| Preferred stock – Series A Non-Voting Convertible, par value \$0.01; 14.750 shares authorized, issued and outstanding (Note 13)                                  | 132,569           |                   |
| <i>Commitments and Contingencies (Note 14)</i>   |                   |                   |
| <b>Stockholders' equity</b>  |                   |                   |
| Preferred stock, par value \$0.01; 2,000 shares authorized (Note 13):  |                   |                   |
| Common stock, par value \$0.01; 250,000 shares authorized; issued and outstanding: 153,083 and 136,996 at September 30, 2018 and December 31, 2017, respectively | 1,531             | 1,370             |
| Additional paid-in capital   | 361,900           | 216,006           |
| Accumulated other comprehensive income   | 373               | 291               |
| Retained earnings/(Accumulated deficit)  | 9,279             | (24,716)          |
| <b>Total stockholders' equity</b>  | <b>373,083</b>    | <b>192,951</b>    |
| <b>Total liabilities and stockholders' equity</b>  | <b>\$ 945,418</b> | <b>\$ 254,985</b> |

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



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

## Consolidated Statements of Operations

*(In Thousands, Except Per Share Amounts)**(Unaudited)*

|   | <b>Three Months Ended</b> |                 | <b>Nine Months Ended</b> |                  |
|---|---------------------------|-----------------|--------------------------|------------------|
|   | <b>September 30,</b>      |                 | <b>September 30,</b>     |                  |
|   | <b>2018</b>               | <b>2017</b>     | <b>2018</b>              | <b>2017</b>      |
| <b>Operating Revenues:</b>  |                           |                 |                          |                  |
| Advisory fees   | \$ 71,679                 | \$ 57,293       | \$ 203,913               | \$ 166,177       |
| Other income  | 891                       | 421             | 2,336                    | 1,145            |
| Total revenues  | 72,570                    | 57,714          | 206,249                  | 167,322          |
| <b>Operating Expenses:</b>  |                           |                 |                          |                  |
| Compensation and benefits   | 17,544                    | 19,492          | 55,677                   | 55,787           |
| Fund management and administration                                    | 15,292                    | 10,862          | 40,825                   | 30,574           |
| Marketing and advertising   | 3,239                     | 3,314           | 10,212                   | 10,676           |
| Sales and business development  | 3,801                     | 3,617           | 12,117                   | 9,968            |
| Contractual gold payments (Note 11)                                   | 2,880                     |                 | 5,595                    |                  |
| Professional and consulting fees                                      | 1,934                     | 1,035           | 5,130                    | 3,814            |
| Occupancy, communications and equipment                               | 1,722                     | 1,378           | 4,659                    | 4,102            |
| Depreciation and amortization   | 306                       | 353             | 998                      | 1,042            |
| Third-party distribution fees   | 1,407                     | 710             | 4,798                    | 2,312            |
| Acquisition-related costs (Note 3)                                    | 456                       |                 | 10,446                   |                  |
| Other   | 2,281                     | 1,729           | 6,332                    | 5,195            |
| Total expenses  | 50,862                    | 42,490          | 156,789                  | 123,470          |
| Operating income  | 21,708                    | 15,224          | 49,460                   | 43,852           |
| <b>Other Income/(Expenses):</b>                                       |                           |                 |                          |                  |
| Interest expense  | (2,747)                   |                 | (5,103)                  |                  |
| Gain on revaluation of deferred consideration gold payments (Note 11) | 7,732                     |                 | 17,630                   |                  |
| Interest income   | 719                       | 772             | 2,293                    | 1,999            |
| Settlement gain   |                           |                 |                          | 6,909            |
| Other gains and losses, net   | 118                       | (500)           | (644)                    | (217)            |
| Income before taxes   | 27,530                    | 15,496          | 63,636                   | 52,543           |
| Income tax expense  | 5,481                     | 7,520           | 15,439                   | 25,582           |
| <b>Net income</b>   | <b>\$ 22,049</b>          | <b>\$ 7,976</b> | <b>\$ 48,197</b>         | <b>\$ 26,961</b> |

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|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Earnings per share basic                 | \$ 0.13 | \$ 0.06 | \$ 0.31 | \$ 0.20 |
| Earnings per share diluted               | \$ 0.13 | \$ 0.06 | \$ 0.31 | \$ 0.20 |
| Weighted-average common shares basic     | 150,892 | 134,709 | 145,149 | 134,552 |
| Weighted-average common shares diluted   | 166,622 | 135,933 | 155,584 | 135,768 |
| Cash dividends declared per common share | \$ 0.03 | \$ 0.08 | \$ 0.09 | \$ 0.24 |

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

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

## Consolidated Statements of Comprehensive Income

*(In Thousands)**(Unaudited)*

|   | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|---|---------------------------|-------------|--------------------------|-------------|
|   | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|   | <b>2018</b>               | <b>2017</b> | <b>2018</b>              | <b>2017</b> |
| <b>Net income</b>   | \$ 22,049                 | \$ 7,976    | \$ 48,197                | \$ 26,961   |
| <b>Other comprehensive (loss)/income</b>  |                           |             |                          |             |
| Change in unrealized gains/(losses) on available-for-sale debt securities, net of tax |                           | (96)        | 477                      | (230)       |
| Foreign currency translation adjustment   | (88)                      | 363         | (395)                    | 802         |
| Other comprehensive (loss)/income   | (88)                      | 267         | 82                       | 572         |
| <b>Comprehensive income</b>   | \$ 21,961                 | \$ 8,243    | \$ 48,279                | \$ 27,533   |

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

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## Consolidated Statements of Cash Flows

*(In Thousands)**(Unaudited)*

|  | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|--|-------------|
|  | <b>2018</b>                                | <b>2017</b> |
| <b>Cash flows from operating activities:</b>   |  |             |
| Net income   | \$ 48,197                                  | \$ 26,961   |
| Adjustments to reconcile net income to net cash provided by operating activities:        |  |             |
| Advisory fees paid in gold and other precious metals                                     | (21,998)                                   |             |
| Contractual gold payments (Note 11)  | 5,595                                      |             |
| Gain on revaluation of deferred consideration gold payments (Note 11)                    | (17,630)                                   |             |
| Stock-based compensation   | 10,078                                     | 10,558      |
| Deferred income taxes  | (1,251)                                    | 3,823       |
| Paid-in-kind interest income (Note 8)  | (1,373)                                    |             |
| Settlement gain  |  | (6,909)     |
| Amortization of credit facility issuance costs   | 1,360                                      |             |
| Depreciation and amortization  | 998  | 1,042       |
| Other  | 810  | 524         |
| Changes in operating assets and liabilities, net of the effects of the ETFs Acquisition: |  |             |
| Securities owned, at fair value  | (2,735)                                    | 1,146       |
| Accounts receivable  | 3,771                                      | (1,969)     |
| Income taxes receivable/payable  | 7,654                                      | (628)       |
| Prepaid expenses   | (621)                                      | (361)       |
| Gold and other precious metals   | 18,472                                     |             |
| Other assets   | 954  | (31)        |
| Acquisition payable  |  | (3,545)     |
| Fund management and administration payable   | 1,998                                      | 561         |
| Compensation and benefits payable  | (21,025)                                   | 115         |
| Securities sold, but not yet purchased, at fair value                                    | 1,068                                      | (1,249)     |
| Accounts payable and other liabilities   | (4,122)                                    | 1,041       |
| Net cash provided by operating activities  | 30,200                                     | 31,079      |
| <b>Cash flows from investing activities:</b>   |  |             |
| Purchase of fixed assets   | (45)                                       | (253)       |
| Purchase of securities held-to-maturity  |  | (3,009)     |
| Purchase of debt securities available-for-sale   |  | (76,776)    |
| Purchase of investments  |  | (5,000)     |
| Funding of AdvisorEngine note receivable (Note 8)  | (8,000)                                    |             |
| Proceeds from held-to-maturity securities maturing or called prior to maturity           | 1,096                                      | 2,162       |

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|  |           |           |
|--|-----------|-----------|
| Proceeds from sales and maturities of debt securities available-for-sale | 64,498    | 65,067    |
| Cash paid ETFS Acquisition, net of cash acquired (Note 3)                | (239,313) |           |
| Net cash used in investing activities                                    | (181,764) | (17,809)  |
| <b>Cash flows from financing activities:</b>                             |           |           |
| Dividends paid   | (14,202)  | (32,825)  |
| Shares repurchased   | (1,430)   | (4,178)   |
| Credit facility issuance costs   | (8,690)   |           |
| Preferred stock issuance costs   | (181)     |           |
| Proceeds from the issuance of long-term debt (Note 12)                   | 200,000   |           |
| Proceeds from exercise of stock options                                  | 157       | 53        |
| Net cash provided by/(used in) financing activities                      | 175,654   | (36,950)  |
| (Decrease)/increase in cash flow due to changes in foreign exchange rate | (1,158)   | 1,179     |
| Net increase/(decrease) in cash and cash equivalents                     | 22,932    | (22,501)  |
| Cash and cash equivalents beginning of period                            | 54,193    | 92,722    |
| Cash and cash equivalents end of period                                  | \$ 77,125 | \$ 70,221 |
| <b>Supplemental disclosure of cash flow information:</b>                 |           |           |
| Cash paid for taxes  | \$ 8,759  | \$ 22,130 |
| Cash paid for interest   | \$ 3,351  | \$        |

Refer to Note 3 for information regarding the non-cash effects of the ETFS Acquisition, including non-cash consideration paid.

*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 global subsidiaries (collectively, *WisdomTree* or the *Company*), is an exchange traded product (ETP) sponsor and asset manager headquartered in New York. WisdomTree offers ETPs covering equity, fixed income, currencies, commodities and alternative strategies. The Company has the following wholly-owned operating subsidiaries:

*WisdomTree Asset Management, Inc.* is a New York based investment adviser registered with the SEC providing investment advisory and other management services to the WisdomTree Trust (WTT) and WisdomTree exchange traded funds (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 to WTT the use of certain of its own indexes on an exclusive basis for the WisdomTree ETFs in the U.S.

*ETFs Management Company (Jersey) Limited* (ManJer) is a Jersey based management company providing investment and other management services to nine issuers (the *ETFs Issuers*) and the ETPs issued and listed by the *ETFs Issuers* covering commodity, currency and short-and-leveraged strategies.

*Boost Management Limited* (BML) is a Jersey based management company providing investment and other management services to Boost Issuer PLC (BI) and Boost ETPs. The Boost ETPs are issued by BI. BI, a non-consolidated third party, is a public limited company domiciled in Ireland.

*WisdomTree Management Limited* (WML) is an Ireland based management company providing investment and other management services to WisdomTree Issuer plc (WTI) and WisdomTree UCITS ETFs. The WisdomTree UCITS ETFs are issued by WTI. WTI, a non-consolidated third party, is a public limited company domiciled in Ireland.

*WisdomTree UK Limited* is a U.K. based company registered with the Financial Conduct Authority currently providing management and other services to ManJer, BML and WML.

*WisdomTree Europe Limited* is a U.K. based company registered with the Financial Conduct Authority currently providing management and other services to WisdomTree UK Limited, BML and WML.

*WisdomTree Asset Management Canada, Inc.* ( *WTAMC* ) is a Canada based investment fund manager registered with the Ontario Securities Commission providing fund management services to locally-listed WisdomTree Canadian ETFs.

*WisdomTree Commodity Services, LLC* ( *WTCS* ) is a New York based company that serves as the managing owner and commodity pool operator of the WisdomTree Continuous Commodity Index Fund. *WTCS* is registered with the Commodity Futures Trading Commission and is a member of the National Futures Association.

*WisdomTree Ireland Limited* is an Ireland based company authorized by the Central Bank of Ireland to provide distribution services. It is intended that WisdomTree Ireland Limited will provide EU distribution services to ManJer, BML and WTML post-Brexit.

#### *Acquisition of ETFs*

On April 11, 2018, the Company acquired the European exchange-traded commodity, currency and short-and-leveraged business ( *ETFs* ) of *ETFs Capital Limited* ( *ETFs Capital* , formerly known as *ETF Securities Limited*). This acquisition is referred to throughout the consolidated financial statements as the *ETFs Acquisition*. See Note 3 for additional information.

#### *Restructuring of Distribution Strategy in Japan*

In July 2018, the Company determined to restructure its distribution strategy in Japan and has expanded its existing relationship with a third party to manage distribution of WisdomTree ETFs in Japan. As a result, the Company will close *WisdomTree Japan Inc.* ( *WTJ* ). During the three months ended September 30, 2018 and 2017, *WTJ* reported an operating loss of \$1,342 and \$1,085, respectively. During the nine months ended September 30, 2018 and 2017, *WTJ* reported an operating loss of \$3,698 and \$3,447, respectively.

## **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.

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The financial results of ETFS are included in our consolidated financial statements since the acquisition date, April 11, 2018 (See Note 3).

Certain accounts in the prior years consolidated financial statements have been reclassified to conform to the current year's consolidated financial statement presentation. The following table summarizes these reclassifications for the three and nine months ended September 30, 2017, which had no effect on previously reported net income.

|   | <b>Three<br/>Months<br/>Ended<br/>September 30,<br/>2017</b> | <b>Nine Months<br/>Ended<br/>September 30,<br/>2017</b> |
|---|--|---|
| <b>Operating Revenues:</b>  |  |   |
| Advisory fees (previously reported)   | \$ 57,574  | \$ 166,950  |
| Other ETP fees reclassified to Other income                                   | (281)  | (773)   |
| <b>Advisory fees (currently reported)</b>                                     | <b>\$ 57,293</b>   | <b>\$ 166,177</b>                                       |
| Settlement gain (previously reported)   | \$   | \$ 6,909  |
| Reclassify to Other Income/(Expenses)   |  | (6,909)   |
| Settlement gain (currently reported)  | \$   | \$  |
| Other income (previously reported)  | \$ 412   | \$ 2,154  |
| Other ETP fees reclassified from Advisory fees                                | 281  | 773   |
| Interest income reclassified to Other<br>Income/(Expenses)                    | (772)  | (1,999)   |
| Realized and unrealized losses reclassified to<br>Other gains and losses, net | 535  | 1,054   |
| Miscellaneous other income reclassified to Other<br>gains and losses, net     | (35)   | (837)   |
| Other income (currently reported)   | \$ 421   | \$ 1,145  |
| <b>Total revenues (currently reported)</b>                                    | <b>\$ 57,714</b>   | <b>\$ 167,322</b>                                       |
| <b>Other Income/(Expenses):</b>   |  |   |
| Interest income reclassified from operating<br>revenues                       | \$ 772   | \$ 1,999  |
| Settlement gain reclassified from operating<br>revenues                       | \$   | \$ 6,909  |
| Other gains and losses, net (previously reported)                             | \$   | \$  |



|   |          |          |
|---|----------|----------|
| Realized and unrealized losses reclassified from operating revenues | (535)    | (1,054)  |
| Miscellaneous other income reclassified from operating revenues     | 35       | 837      |
| Other gains and losses, net (currently reported)                    | \$ (500) | \$ (217) |

### ***Consolidation***

The Company consolidates entities in which it has a controlling financial interest. The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity ( VOE ) or a variable interest entity ( VIE ). The usual condition for a controlling financial interest in a VOE is ownership of a majority voting interest. If the Company has a majority voting interest in a VOE, the entity is consolidated. The Company has a controlling financial interest in a VIE when the Company has a variable interest that provides it with (i) the power to direct the activities of the VIE that most significantly impact the VIE s economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

The Company reassesses its evaluation of whether an entity is a VIE when certain reconsideration events occur.

### ***Segment and Geographic Information***

The Company operates as an ETP sponsor and asset manager providing investment advisory services globally. These activities are reported in the Company s U.S. Business and International Business reportable segments. The International Business reportable segment includes the results of the Company s European operations and Canadian operations.

The financial results of ETFs are included in the International Business reportable segment as of the acquisition date.

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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. The impact of the foreign currency translation adjustment is included in the Consolidated Statements of Comprehensive Income as a component of other comprehensive income.

***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 substantially all of its revenue in the form of advisory fees from its ETPs and recognizes this revenue over time, as the performance obligation is satisfied. ETP advisory fees are based on a percentage of the ETPs average daily net assets. Progress is measured using the practical expedient under the output method resulting in the recognition of revenue in the amount for which the Company has a right to invoice.

***Contractual Gold Payments***

Contractual gold payments are measured monthly based upon the average daily spot price of gold (See Note 11).

***Marketing and Advertising***

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

***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 recorded at cost less accumulated depreciation and amortization.

***Occupancy***

The Company accounts for its office lease facilities as operating leases, which may include free rent periods and escalation clauses. The Company expenses the lease payments associated with operating leases on a straight-line basis over the lease term.

***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. Stock-based compensation is measured based on the grant-date fair value of the award and is amortized over the relevant service period. Forfeitures are recognized when they occur.

***Third-Party Distribution Fees***

The Company pays a percentage of its advisory fee revenues based on incremental growth in AUM, subject to caps or minimums, to marketing agents to sell WisdomTree ETFs and for including WisdomTree ETFs on third-party customer platforms.

***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. The Company maintains deposits with financial institutions in an amount that is in excess of federally insured limits.

***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 current and collectible.

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### ***Impairment of Long-Lived Assets***

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.

### ***Note Receivable***

Note receivable is accounted for on an amortized cost basis, net of original issue discount. Interest income is accrued over the term of the note using the effective interest method. The Company performs a review for the impairment of the note receivable on a quarterly basis and provides for an allowance for credit losses if all or a portion of the note is determined to be uncollectible.

### ***Securities Owned and Securities Sold, but not yet Purchased (at fair value)***

Securities owned and securities sold, but not yet purchased are securities classified as either trading or available-for-sale. These securities are recorded on their trade date and are measured at fair value. All equity securities are classified by the Company as trading. Debt securities are classified based primarily on the Company's intent to hold or sell the security. Changes in the fair value of securities classified as trading are reported in other income in the period the change occurs. Unrealized gains and losses of securities classified as available-for-sale are included in other comprehensive income. Once sold, amounts reclassified out of accumulated other comprehensive income and into earnings are determined using the specific identification method. Available-for-sale securities are assessed for impairment on a quarterly basis.

### ***Securities Held-to-Maturity***

The Company accounts for certain of its investments as held-to-maturity on a trade date basis, 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 quarterly 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.

### ***Investments, Carried at Cost***

The Company accounts for equity investments that do not have a readily determinable fair value as cost method investments under the measurement alternative prescribed within Accounting Standards Update (ASU) 2016-01, *Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities*, to the extent such investments are not subject to consolidation or the equity method. Under the measurement alternative, these financial instruments are carried at cost, less any impairment (assessed quarterly), plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. In addition, income is recognized when dividends are received only to the extent they are distributed from net accumulated earnings of the investee. Otherwise, such distributions are considered returns of investment and are recorded as a reduction of the cost of the investment.

### ***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 and at the time of a triggering event requiring re-evaluation, if one were to occur, in accordance with ASU 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The Company early adopted the revised guidance for the impairment tests performed after January 1, 2017. Under the revised guidance, goodwill is considered impaired when the estimated fair value of the reporting unit that was allocated the goodwill is less than its carrying value. If the estimated fair value of such reporting unit is less than its carrying value, goodwill impairment is recognized based on that difference, not to exceed the carrying amount of goodwill. A reporting unit is an operating segment or a component of an operating segment provided that the component constitutes a business for which discrete financial information is available and management regularly reviews the operating results of that component.

For impairment testing purposes, goodwill has been allocated to the Company's U.S. Business reporting unit which is assessed annually for impairment on April 30<sup>th</sup> (See Note 22). In addition, goodwill arising from the ETFS Acquisition (See Note 3) has been allocated to the European Business reporting unit, included within the International Business reportable segment and assessed annually for impairment on November 30<sup>th</sup>. When performing its goodwill impairment test, the Company considers a qualitative assessment, when appropriate, and the income approach, market approach and its market capitalization when determining the fair value of its reporting units.

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### ***Intangible Assets***

Indefinite-lived intangible assets are tested for impairment at least annually and are also reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Indefinite-lived intangible assets are impaired if their estimated fair values are less than their carrying values.

Finite-lived intangible assets, if any, are amortized over their estimated useful life, which is the period over which the assets are expected to contribute directly or indirectly to the future cash flows of the Company. These intangible assets are tested for impairment at the time of a triggering event, if one were to occur. Finite-lived intangible assets may be impaired when the estimated undiscounted future cash flows generated from the assets are less than their carrying amounts.

The Company may rely on a qualitative assessment when performing its intangible asset impairment test. Otherwise, the impairment evaluation is performed at the lowest level of reasonably identifiable cash flows independent of other assets. The annual impairment testing date for all of the Company's intangible assets is November 30.

### ***Deferred Consideration***

Deferred consideration represents the present value of an obligation to pay gold to a third party into perpetuity and is measured using forward-looking gold prices and a selected discount rate (See Note 11). Changes in the fair value of this obligation are reported as gain/(loss) on revaluation of deferred consideration on the Company's Consolidated Statements of Operations.

### ***Long-Term Debt***

Long-term debt is carried at amortized cost, net of debt issuance costs. Interest expense is recognized using the effective interest method and includes amortization of debt issuance costs over the life of the debt.

### ***Earnings per Share***

Basic earnings per share (EPS) is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding for the period. Net income available to common stockholders represents net income of the Company reduced by an allocation of earnings to participating securities. The preferred stock issued in connection with the ETFs Acquisition (see Note 3) and unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are included in the computation of EPS pursuant to the two-class method. Share-based payment awards that do not contain such rights are not deemed participating securities and are included in diluted shares outstanding (if dilutive) under the treasury stock method. Diluted EPS reflects the reduction in earnings per share assuming dilutive options or other dilutive contracts to issue common stock were exercised or converted into common stock. Diluted EPS is calculated under the treasury stock and if-converted method and the two-class method. The calculation that results in the most dilutive EPS amount for the common stock is reported in the Company's consolidated financial statements.

### ***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 the deferred tax assets will not be realized.

Tax positions are evaluated utilizing a two-step process. The Company first determines whether any of its tax positions are more-likely-than-not to be sustained upon examination, based solely on the technical merits of the position. Once it is determined that a position meets this recognition threshold, the position is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Company records interest expense and penalties related to tax expenses as income tax expense.

Non-income based taxes are recorded as part of other liabilities and other expenses.

### ***Recently Issued Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board, or FASB, issued ASU 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), a comprehensive revenue recognition standard on the financial reporting requirements for revenue from contracts entered into with customers. In July 2015, the FASB deferred this ASU's effective date by one year, to interim and annual periods beginning after December 15, 2017. The deferral allows early adoption at the original effective date. During 2016, the FASB issued ASU 2016-08, which clarifies principal versus agent considerations, ASU 2016-10, which clarifies identifying performance obligations and the licensing implementation guidance, and ASU 2016-12, which amends certain aspects of the new revenue recognition standard pursuant to ASU 2014-09. ASU 2014-09 allows for the use of either the retrospective or modified retrospective adoption method. The guidance in ASU 2014-09, and the related amendments, became effective for the Company on January 1, 2018.

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The Company adopted this standard under the modified retrospective method and has determined the standard did not have a material impact on the Company's historical pattern of recognizing revenue from its contracts with customers (See Note 16).

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01). The main objective of the standard is to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments in the update make targeted improvements to generally accepted accounting principles. These include requiring equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. Available-for-sale classification for equity investments with readily determinable fair values will no longer be permissible. However, an entity may choose a measurement alternative to measure equity investments that do not have readily determinable fair values by recognizing these financial instruments at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. The update also simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted this standard on January 1, 2018 and has elected to apply the measurement alternative to its equity investments that do not have readily determinable fair values. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments* (ASU 2016-13). The main objective of the standard is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. In issuing this standard, the FASB is responding to criticism that today's guidance delays recognition of credit losses. The standard will replace today's incurred loss approach with an expected loss model. The new model, referred to as the current expected credit loss (CECL) model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. The standard is applicable to loans, accounts receivable, trade receivables, and other financial assets measured at amortized cost, loan commitments and certain other off-balance sheet credit exposures, debt securities (including those held-to-maturity) and other financial assets measured at fair value through other comprehensive income, and beneficial interests in securitized financial assets. The CECL model does not apply to available-for-sale debt securities. For available-for-sale debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the credit losses will be recognized as allowances rather than reductions in the amortized cost of the securities. Accordingly, the new methodology will be utilized when assessing the Company's financial instruments for impairment. As a result, entities will recognize improvements to estimated credit losses immediately in earnings rather than as interest income over time, as they do today. The ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for loan and lease losses. ASU 2016-13 is effective for years beginning after December 15, 2019, including interim periods within those fiscal years under a modified retrospective approach. Early adoption is permitted for periods beginning after December 15, 2018. The Company is currently evaluating the impact that the standard will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (ASU 2016-02), which requires lessees to include most leases on the balance sheet. ASU 2016-02 is effective for fiscal years (and interim reporting periods within those years) beginning after December 15, 2018 and early adoption is permitted. The Company is currently evaluating the



impact that the standard will have on its consolidated financial statements and expects, at a minimum, that its implementation will result in a gross-up on the consolidated balance sheets upon recognition of right-of-use assets and lease liabilities associated with the future minimum payments required under operating leases as disclosed in Note 14.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) Disclosure Framework Changes to the Disclosure Requirements for Fair Value Measurement* (ASU 2018-13), which modifies the disclosure requirements on fair value measurements, including removing the requirement to disclose (1) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, (2) the policy for timing of transfers between levels and (3) the valuation processes for Level 3 fair value measurements. ASU 2018-13 also added new disclosures including the requirement to disclose (A) the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and (B) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. ASU 2018-13 is effective for fiscal years (and interim reporting periods within those years) beginning after December 15, 2019 and early adoption is permitted. This standard will only impact the disclosures pertaining to fair value measurements.

**Table of Contents****3. Business Combination***Summary*

On November 13, 2017, the Company entered into a Share Sale Agreement as amended by the Waiver and Variation Agreement, dated April 11, 2018 (collectively referred to as the *Share Sale Agreement*) with ETFS Capital and WisdomTree International Holdings Ltd, an indirect wholly owned subsidiary of the Company (*WisdomTree International*), pursuant to which the Company agreed to acquire ETFS. On April 11, 2018, the Company completed the acquisition by purchasing the entire issued share capital of a subsidiary of ETFS Capital into which ETFS Capital transferred ETFS prior to completion of the ETFS Acquisition.

Pursuant to the Share Sale Agreement, the Company acquired ETFS for a purchase price consisting of (a) \$253,000 in cash (including \$53,000 paid from proceeds arising from maturities of securities owned, at fair value), subject to customary adjustments for working capital, and (b) a fixed number of shares of the Company's capital stock, consisting of (i) 15,250,000 shares of common stock (the *Common Shares*) and (ii) 14,750 shares of Series A Non-Voting Convertible Preferred Stock (the *Preferred Shares*), which are convertible, subject to certain restrictions, into an aggregate of 14,750,000 shares of common stock.

On April 11, 2018 and in connection with the ETFS Acquisition, the Company and WisdomTree International entered into a credit agreement (the *Credit Agreement*), by and among the Company, WisdomTree International, certain subsidiaries of the Company as guarantors, the lenders party thereto and Credit Suisse AG, Cayman Islands Branch, as administrative agent, collateral agent, L/C Issuer and lender. Under the Credit Agreement, the lenders extended a \$200,000 term loan (the *Term Loan*) to WisdomTree International, the net cash proceeds of which were used by WisdomTree International, together with other cash on hand, to complete the acquisition and pay certain related fees, costs and expenses, and made a \$50,000 revolving credit facility (the *Revolver* and, together with the Term Loan, the *Credit Facility*) available to the Company and WisdomTree International for revolving borrowings from time to time for working capital, capital expenditures and general corporate purposes (See Note 12).

On April 11, 2018 and in connection with the acquisition, the Company and ETFS Capital also entered into an Investor Rights Agreement, pursuant to which, among other things, ETFS Capital is subject to lock-up, standstill and voting restrictions. ETFS Capital also received certain registration rights with respect to the Common Shares and the shares of common stock issuable upon conversion of the Preferred Shares it received in the transaction.

*Purchase Price Allocation*

The ETFS Acquisition has been accounted for under the acquisition method of accounting in accordance with ASC Topic 805, *Business Combinations*, which requires an allocation of the consideration paid by the Company to the identifiable assets and liabilities of ETFS based on the estimated fair values as of the closing date of the acquisition. An allocation of the consideration transferred is presented below based on information currently available and includes the Company's valuation of the fair value of tangible and intangible assets acquired and liabilities assumed.

The following table summarizes the allocation of the purchase price as of the acquisition date:

|                         |        |
|-------------------------|--------|
| <b>Purchase price</b>   |        |
| Preferred Shares issued | 14,750 |
| Conversion ratio        | 1,000  |

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|   |                   |
|---|-------------------|
| Common stock equivalents  | 14,750,000        |
| Common Shares issued  | 15,250,000        |
| Total shares issued   | 30,000,000        |
| WisdomTree stock price <sup>(1)</sup>                             | \$ 9.00           |
| Equity portion of purchase price                                  | \$ 270,000        |
| Cash portion of purchase price                                    |                   |
| Term Loan (See Note 12)   | 200,000           |
| Cash on hand  | 53,000            |
| <b>Purchase price</b>   | <b>523,000</b>    |
| Deferred consideration (See Note 11)                              | 172,746           |
| <b>Total</b>  | <b>\$ 695,746</b> |
| <b>Allocation of consideration</b>                                |                   |
| Cash and cash equivalents   | 13,687            |
| Receivables and other current assets                              | 14,069            |
| Intangible assets <sup>(2)</sup>                                  | 601,247           |
| Other current liabilities   | (17,314)          |
| Fair value of net assets acquired                                 | 611,689           |
| <b>Goodwill resulting from the ETFS Acquisition<sup>(3)</sup></b> | <b>\$ 84,057</b>  |

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- (1) The closing price of the Company's common stock on April 10, 2018, the last trading day prior to the closing date of the acquisition.
- (2) Represents purchase price allocated to customary advisory agreements. The fair value of the intangible assets was determined using an income approach (discounted cash flow analysis) which relied upon significant unobservable inputs including a revenue growth multiple of 3% to 4% and a weighted average cost of capital of 11.6%. These intangible assets were determined to have an indefinite useful life and are not deductible for tax purposes. A deferred tax liability associated with these intangible assets was not recognized as the intangibles arose in Jersey, where the Company will be subject to a zero percent tax rate.
- (3) Goodwill arising from the ETFs Acquisition represents the value of expected synergies created from combining the operations of ETFs and the Company. The goodwill is not deductible for tax purposes as the transaction was structured as a stock acquisition occurring in the United Kingdom.

*Acquisition-Related Costs*

During the three and nine months ended September 30, 2018, the Company incurred acquisition-related costs associated with the ETFs Acquisition of \$456 and \$10,446, respectively. Costs incurred during the three months ended September 30, 2018 were primarily related to the integration of ETFs. Costs incurred during the nine months ended September 30, 2018 included professional advisor fees, severance and other compensation costs, a write-off of the Company's office lease and other integration costs.

*Operating Results of ETFs*

The Company's Consolidated Statements of Operations include the following operating results of ETFs since the acquisition date of April 11, 2018 through September 30, 2018:

|                      |  |
|----------------------|--|
| Revenues:            | \$37,137   |
| Income before taxes: | \$33,496 (including a gain on revaluation of deferred consideration of \$17,630) |

*Supplemental Unaudited Pro Forma Financial Information*

The following table presents unaudited pro forma financial information of the Company as if the ETFs Acquisition had been consummated on January 1, 2017. The information was derived from the historical financial results of the Company and ETFs for all periods presented and was adjusted to give effect to pro forma events that are directly attributable to the acquisition, factually supportable and expected to have a continuing impact on the combined results following the acquisition.

|          | Three Months Ended September 30, 2018 |           | Nine Months Ended September 30, 2017 |            |
|----------|---------------------------------------|-----------|--------------------------------------|------------|
|          | 2018                                  | 2017      | 2018                                 | 2017       |
| Revenues | n/a                                   | \$ 78,594 | \$ 229,674                           | \$ 228,004 |

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|            |     |    |       |    |        |    |        |
|------------|-----|----|-------|----|--------|----|--------|
| Net income | n/a | \$ | 6,736 | \$ | 48,088 | \$ | 22,011 |
|------------|-----|----|-------|----|--------|----|--------|

Included within the pro forma financial information above is a gain/(loss) on revaluation of deferred consideration of (\$4,869) for the three months ended September 30, 2017, and \$4,670 and (\$15,088) for the nine months ended September 30, 2018 and 2017, respectively. Significant adjustments to the unaudited pro forma financial information above include the recognition of interest expense associated with the Credit Facility for the periods presented, eliminating acquisition-related costs directly attributable to the acquisition and adjusting consolidated income tax expense based upon the Company's anticipated normalized consolidated effective tax rate.

The unaudited pro forma financial information above is not necessarily indicative of what the combined results of the Company would have been had the acquisition been completed as of January 1, 2017 and does not purport to project the future results of the combined company. In addition, the unaudited pro forma financial information does not reflect any future planned cost savings initiatives following the completion of the acquisition.

**Table of Contents****4. Cash and Cash Equivalents**

Cash and cash equivalents of approximately \$32,412 and \$24,103 at September 30, 2018 and December 31, 2017, respectively, were held at one financial institution. At September 30, 2018 and December 31, 2017, cash equivalents were approximately \$5,722 and \$26,548, respectively.

**5. Fair Value Measurements**

Securities owned and securities sold, but not yet purchased are measured at fair value. The fair value of securities is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. Accounting Standards Codification (ASC) 820, *Fair Value Measurements*, establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1 Quoted prices for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Instruments whose significant drivers are unobservable.

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by management in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The tables below summarize the categorization of the Company's assets and liabilities measured at fair value. During the three and nine months ended September 2018 and 2017 there were no transfers between Levels 1, 2 and 3.

|                                    | <b>September 30, 2018</b> |                |                |                |
|------------------------------------|---------------------------|----------------|----------------|----------------|
|                                    | <b>Total</b>              | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
| <b>Assets:</b>                     |                           |                |                |                |
| Recurring fair value measurements: |                           |                |                |                |
| Cash equivalents                   | \$ 5,722                  | \$ 5,722       | \$             | \$             |
| Securities owned, at fair value    | 4,426                     | 4,426          |                |                |

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|  |            |           |            |
|--|------------|-----------|------------|
| Total  | \$ 10,148  | \$ 10,148 | \$         |
| <b>Non-recurring fair value measurements:</b>              |            |           |            |
| AdvisorEngine Inc. Option <sup>(1)</sup>                   | \$ 3,278   | \$        | \$ 3,278   |
| Thesys Group, Inc. Series Y preferred stock <sup>(2)</sup> | 6,909      |           | 6,909      |
| Total  | \$ 10,187  | \$        | \$ 10,187  |
| <b>Liabilities:</b>  |            |           |            |
| <b>Recurring fair value measurements:</b>                  |            |           |            |
| Deferred consideration (Note 11)                           | \$ 156,055 | \$        | \$ 156,055 |
| Securities sold, but not yet purchased                     | 2,018      | 2,018     |            |
| Total  | \$ 158,073 | \$ 2,018  | \$ 156,055 |

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|  | Total            | December 31, 2017 |                  |                  |
|--|------------------|-------------------|------------------|------------------|
|  |                  | Level 1           | Level 2          | Level 3          |
| <b>Assets:</b>   |                  |                   |                  |                  |
| Recurring fair value measurements:                         |                  |                   |                  |                  |
| Cash equivalents   | \$ 26,548        | \$ 26,548         | \$               | \$               |
| Securities owned, at fair value                            | 66,294           | 1,691             | 64,603           |                  |
| <b>Total</b>   | <b>\$ 92,842</b> | <b>\$ 28,239</b>  | <b>\$ 64,603</b> | <b>\$</b>        |
| Non-recurring fair value measurements:                     |                  |                   |                  |                  |
| AdvisorEngine Inc. Option <sup>(1)</sup>                   | \$ 3,278         |                   |                  | \$ 3,278         |
| Thesys Group, Inc. Series Y preferred stock <sup>(2)</sup> | 6,909            |                   |                  | 6,909            |
| <b>Total</b>   | <b>\$ 10,187</b> | <b>\$</b>         | <b>\$</b>        | <b>\$ 10,187</b> |
| <b>Liabilities:</b>  |                  |                   |                  |                  |
| Recurring fair value measurements:                         |                  |                   |                  |                  |
| Securities sold, but not yet purchased                     | \$ 950           | \$ 950            | \$               | \$               |
| <b>Total</b>   | <b>\$ 950</b>    | <b>\$ 950</b>     | <b>\$</b>        | <b>\$</b>        |

(1) Fair value determined on December 29, 2017 (See Note 9).

(2) Fair value determined on June 20, 2017 (See Note 9).

**Recurring Fair Value Measurements - Methodology**

**Cash and Cash Equivalents (Note 4)** These financial assets represent cash in banks or cash invested in highly liquid investments with original maturities less than 90 days. These investments are valued at par, which approximates fair value, and are considered Level 1.

**Securities Owned/Sold but Not Yet Purchased (Note 6)** Securities owned and sold, but not yet purchased include investments in ETFs and short-term investment grade corporate bonds. ETFs are generally traded in active, quoted and highly liquid markets and are therefore classified as Level 1 in the fair value hierarchy. Investments in short-term investment grade corporate bonds are classified as Level 2 as fair value is generally derived from observable bids for these financial instruments.

**Deferred Consideration** Deferred consideration represents the present value of an obligation to pay gold into perpetuity and was measured at September 30, 2018 using forward-looking gold prices ranging from \$1,193 per ounce to \$2,693 per ounce which are extrapolated from the last observable price (beyond 2024), discounted at a rate of 10%. This obligation is classified as Level 3 as the discount rate and extrapolated forward-looking gold prices are significant unobservable inputs. An increase in gold prices would result in an increase in deferred consideration, whereas, an increase in the discount rate would reduce the fair value. See Note 11 for additional information.

The following table presents a reconciliation of beginning and ending balances of recurring fair value measurements classified as Level 3:



|  | Three Months                   |      | Nine Months Ended         |      |
|--|--------------------------------|------|---------------------------|------|
|  | Ended<br>September 30,<br>2018 | 2017 | September 30,<br>2018     | 2017 |
| <b>Deferred consideration (See Note 11)</b>  |                                |      |                           |      |
| Beginning balance                            | \$ 162,848                     | \$   | \$ 172,746 <sup>(1)</sup> | \$   |
| Net realized losses/(gains) <sup>(2)</sup>   | 2,880                          |      | 5,595                     |      |
| Net unrealized losses/(gains) <sup>(3)</sup> | (7,732)                        |      | (17,630)                  |      |
| Settlements                                  | (1,941)                        |      | (4,656)                   |      |
| Ending balance                               | \$ 156,055                     | \$   | \$ 156,055                | \$   |

- (1) Arose in connection with the completion of the ETFs Acquisition on April 11, 2018 (See Note 3).  
(2) Recorded as contractual gold payments expense on the Company's Consolidated Statements of Operations.  
(3) Recorded as gain on revaluation of deferred consideration on the Company's Consolidated Statements of Operations.

**Table of Contents****6. Securities Owned/Sold but Not Yet Purchased**

These securities consist of securities classified as trading and available-for-sale, as follows:

|   | <b>September 30,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|---|-------------------------------|------------------------------|
| <i>Securities Owned</i>                       |                               |                              |
| Trading securities                            | \$ 4,426                      | \$ 1,691                     |
| Available-for-sale debt securities            |                               | 64,603                       |
| Total   | \$ 4,426                      | \$ 66,294                    |
| <i>Securities Sold, but not yet Purchased</i> |                               |                              |
| Trading securities                            | \$ 2,018                      | \$ 950                       |
| Available-for-sale debt securities            |                               |                              |
| Total   | \$ 2,018                      | \$ 950                       |

***Available-for-Sale Debt Securities***

The following table summarizes unrealized gains, losses and fair value of the available-for-sale debt securities:

|   | <b>September 30,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|---|-------------------------------|------------------------------|
| Cost  | \$                            | \$ 65,237                    |
| Gross unrealized gains in other comprehensive income  |                               |                              |
| Gross unrealized losses in other comprehensive income |                               | (634)                        |
| Fair value  | \$                            | \$ 64,603                    |

During the three and nine months ended September 30, 2018, the Company received \$0 and \$64,498, respectively, of proceeds from the sale and maturity of available-for-sale securities and recognized gross realized losses of \$0 and \$739, respectively.

During the three and nine months ended September 30, 2017, the Company received \$19,003 and \$65,067, respectively, of proceeds from the sale and maturity of available-for-sale securities and recognized gross realized losses of \$277 and \$687, respectively.

Realized losses have been reclassified out of accumulated other comprehensive income and into the Consolidated Statements of Operations.

**7. Securities Held-to-Maturity**

The following table is a summary of the Company's securities held-to-maturity:

|  | <b>September 30,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|--|-------------------------------|------------------------------|
| Federal agency debt instruments (amortized cost) | \$ 20,199                     | \$ 21,299                    |

The following table summarizes unrealized gains, losses, and fair value of securities held-to-maturity:

|                         | <b>September 30,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|-------------------------|-------------------------------|------------------------------|
| Cost/amortized cost     | \$ 20,199                     | \$ 21,299                    |
| Gross unrealized gains  | 4                             | 9                            |
| Gross unrealized losses | (2,232)                       | (1,257)                      |
| Fair value              | \$ 17,971                     | \$ 20,051                    |

The Company assesses these securities for other-than-temporary impairment on a quarterly basis. No securities were determined to be other-than-temporarily impaired at September 30, 2018 or December 31, 2017. The Company does not intend to sell these securities and it is not more-likely-than-not that the Company will be required to sell the securities before recovery of their amortized cost bases, which may be maturity.

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The following table sets forth the maturity profile of the securities held-to-maturity; however, these securities may be called prior to maturity date:

|                                  | <b>September 30,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|----------------------------------|-------------------------------|------------------------------|
| Due within one year              | \$                            | \$ 1,000                     |
| Due one year through five years  | 4                             | 11                           |
| Due five years through ten years | 6,025                         | 6,027                        |
| Due over ten years               | 14,170                        | 14,261                       |
| <b>Total</b>                     | <b>\$ 20,199</b>              | <b>\$ 21,299</b>             |

**8. Note Receivable**

On December 29, 2017, the Company committed to provide up to \$30,000 in additional working capital to AdvisorEngine Inc. ( AdvisorEngine ) pursuant to an unsecured promissory note, all of which has been funded. The majority of the funds were used by AdvisorEngine to acquire CRM Software, Inc., known as Junxure, a comprehensive client relationship management software and technology provider for financial advisors.

All principal amounts under the note bear interest from the date such amounts are advanced until repaid at a rate of 5% per annum, provided that immediately upon the occurrence and during the continuance of an event of default (as defined), interest will be increased to 10% per annum. All accrued and unpaid interest is treated as paid-in-kind ( PIK ) by capitalizing such amount and adding it to the principal amount of the original note. AdvisorEngine has the option to prepay the note, in whole or in part, at any time without premium or penalty. All borrowings under the promissory note mature on December 29, 2021.

In connection with providing funding to AdvisorEngine for the acquisition of Junxure, the Company secured an option to purchase the remaining equity interests in AdvisorEngine. The option was ascribed a fair value of \$3,278 (See Note 9) which gave rise to original issue discount reducing the carrying value of the note.

The following is a summary of the outstanding note receivable balance:

|  | <b>September 30,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|--|-------------------------------|------------------------------|
| Note receivable (face value)                       | \$ 30,000                     | \$ 22,000                    |
| Less: Original issue discount ( OID ), unamortized | (2,788)                       | (3,252)                      |
| Plus: PIK interest                                 | 909                           |                              |
| <b>Total note receivable, net</b>                  | <b>\$ 28,121</b>              | <b>\$ 18,748</b>             |
| <b>Commitment remaining</b>                        | <b>n/a</b>                    | <b>\$ 8,000</b>              |

During the three and nine months ended September 30, 2018, the Company recognized interest income of \$533 and \$1,373, respectively, which included OID amortization and accrued PIK interest. The Company determined that an

allowance for credit loss was not necessary at September 30, 2018 and December 31, 2017 as the note receivable was recently issued and no adverse events or circumstances have occurred which may indicate that its carrying amount may not be recoverable. The carrying value of the note receivable at September 30, 2018 and December 31, 2017 approximates fair value as the implied discount rate of the note is similar to observable high yield credit spreads.

### 9. Investments, Carried at Cost

The following table sets forth the Company's investments, carried at cost:

|                               | <b>September 30,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|-------------------------------|-------------------------------|------------------------------|
| AdvisorEngine Preferred stock | \$ 25,000                     | \$ 25,000                    |
| AdvisorEngine Option          | 3,278                         | 3,278                        |
| Thesys Group, Inc. ( Thesys ) | 6,909                         | 6,909                        |
| <b>Total</b>                  | <b>\$ 35,187</b>              | <b>\$ 35,187</b>             |

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### ***AdvisorEngine***

#### ***Preferred Stock***

On November 18, 2016, the Company made a \$20,000 strategic investment in AdvisorEngine, an end-to-end wealth management platform which enables individual customization of investment philosophies. The Company and AdvisorEngine also entered into an agreement whereby the Company's asset allocation models are made available through AdvisorEngine's open architecture platform and the Company actively introduces the platform to its distribution network. In consideration of its investment, the Company received 11,811,856 shares of Series A convertible preferred shares (Series A Preferred).

The Series A Preferred is convertible into common stock at the option of the Company and contains various rights and protections including a non-cumulative 6.0% dividend, payable if and when declared by the board of directors, and a liquidation preference that is senior to all other holders of capital stock of AdvisorEngine.

On April 27, 2017, the Company invested an additional \$5,000 in AdvisorEngine to help facilitate AdvisorEngine's acquisition of Kredible Technologies, Inc., a technology enabled, research-driven practice management firm designed to help advisors acquire new clients, and to continue to fuel AdvisorEngine's growth, leadership and innovation in the advisor solutions space. The Company received 2,646,062 shares of Series A-1 convertible preferred stock which has substantially the same terms as the Series A Preferred.

The Company's aggregate equity ownership interest in AdvisorEngine is approximately 47% (or 41% on a fully-diluted basis). The investment is accounted for under the cost method of accounting as it is not considered to be in-substance common stock. No impairment existed at September 30, 2018 or December 31, 2017 and there were no observable price changes during the three and nine months ended September 30, 2018.

#### ***Option***

On December 29, 2017, the Company secured an option to purchase the remaining equity interests in AdvisorEngine, in connection with its commitment to provide up to \$30,000 of additional working capital. The option is for a period of approximately one year and is exercisable at a price derived from an agreed-upon enterprise valuation of AdvisorEngine. If exercised, closing of the acquisition would occur no later than January 15, 2019. The fair value of the option was determined to be \$3,278 on December 29, 2017, using a Monte Carlo simulation which was predominantly based on unobservable inputs and is therefore classified as Level 3. The enterprise value was derived from unobservable inputs including a weighted average cost of capital (WACC) of 27% and an option volatility of 40%. An increase in the WACC would reduce AdvisorEngine's enterprise value which would reduce the fair value of the option, whereas an increase in the option volatility would increase the fair value of the option.

The option is not accounted for as a derivative as it cannot be net settled and is not readily convertible to cash. Therefore, the option is accounted for under the cost method of accounting and is assessed for impairment on a quarterly basis. No impairment existed at September 30, 2018 or December 31, 2017.

#### ***Thesys***

On June 20, 2017, the Company was issued 7,797,533 newly authorized shares of Series Y preferred stock (Series Y Preferred) of Thesys in connection with the resolution of a dispute related to the Company's ownership stake in Thesys. The Series Y Preferred represents current ownership of 18.8% of Thesys on a fully diluted basis (excluding certain reserved shares). In addition, the Company was issued a warrant to purchase 3,898,766 shares of Series Y

Preferred.

The Series Y Preferred ranks *pari passu* in priority with Theysys' s current preferred stockholders, has a liquidation preference of \$0.231 per share, contains various rights and protections and is convertible into common stock at the option of the Company. The warrant is exercisable for five years after closing, at varying exercise prices that increase over time and set at multiples of a pre-determined Theysys valuation (or new valuation if Theysys completes a qualified financing, as defined, within two years). If a claim is brought against Theysys or the Company relating to the settlement, the warrant will be exercisable for 100% of the number of shares of Series Y Preferred issued to the Company at closing.

The Company recorded the Series Y Preferred at its fair value of \$6,909 during the second quarter of 2017. The Series Y Preferred is not considered to be in-substance common stock and is therefore accounted for under the cost method of accounting. No impairment existed at September 30, 2018 or December 31, 2017 and there were no observable price changes during the three and nine months ended September 30, 2018. The fair value of the warrant was determined to be insignificant. The warrant is not accounted for as a derivative as it cannot be net settled and is not readily convertible to cash.

**Table of Contents****10. Fixed Assets, net**

The following table summarizes fixed assets:

|   | September 30,<br>2018 | December 31,<br>2017 |
|---|-----------------------|----------------------|
| Equipment                                       | \$ 2,028              | \$ 1,879             |
| Furniture and fixtures                          | 2,386                 | 2,449                |
| Leasehold improvements                          | 10,867                | 11,037               |
| Less: accumulated depreciation and amortization | (5,558)               | (4,672)              |
| <b>Total</b>                                    | <b>\$ 9,723</b>       | <b>\$ 10,693</b>     |

**11. Deferred Consideration**

ETFS Capital first acquired Gold Bullion Securities Ltd. ( GBS Issuer ), one of the issuers that the Company acquired as part of the ETFS Acquisition, paying no upfront consideration. Instead, the consideration was deferred and contracted to be paid by ETFS Capital in fixed payments of physical gold bullion equating to 9,500 ounces of gold per year through March 31, 2058 and then subsequently reduced to 6,333 ounces of gold continuing into perpetuity (the Contractual Gold Payments ).

ETFS Capital's deferred consideration obligation did not terminate upon the Company's acquisition of ETFS. Instead, a wholly-owned subsidiary of the Company assumed the obligation by entering into a Gold Royalty Agreement with ETFS Capital, which provides for the same Contractual Gold Payments payable to ETFS Capital in order for ETFS Capital to continue to satisfy its deferred consideration obligation. The Contractual Gold Payments are paid from advisory fee income generated by the physically backed gold exchange-traded products issued by GBS Issuer and any other Company sponsored financial product backed by physical gold (the Gold ETCs ). The Contractual Gold Payments are subject to adjustment and reduction for declines in advisory fee income generated by the Gold ETCs, with any reduction remaining due and payable until paid in full. ETFS Capital's recourse is limited to such advisory fee income and it has no recourse back to the Company for any unpaid amounts that exceed advisory fees earned. ETFS Capital ultimately has the right to claw back GBS Issuer if the Company fails to remit any amounts due.

The Company determined the present value of the deferred consideration of \$172,746 and \$156,055 at April 11, 2018 (date of acquisition) and September 30, 2018, respectively, using forward-looking gold prices which were extrapolated from the last observable price (beyond 2024), discounted at a rate of 10.0%. Current and long-term amounts payable at September 30, 2018 were \$11,788 and \$144,267, respectively.

During the three and nine months ended September 30, 2018, the Company recognized Contractual Gold Payments expense of \$2,880 and \$5,595, respectively, arising from the fixed payments of physical gold bullion of 2,375 ounces and 4,460 ounces, respectively, (or 9,500 ounces per annum) and the unwinding of the discount (representing the increase in the carrying amount of the deferred consideration for the passage of time). A gain on the revaluation of deferred consideration of \$7,732 and \$17,630 was recognized during the three and nine months ended September 30, 2018, respectively, due to changes in gold prices.

See Note 5 for a reconciliation of changes in the deferred consideration balance for the three and nine months ended September 30, 2018.



## 12. Long-Term Debt

On April 11, 2018 and in connection with the ETFs Acquisition, the Company and WisdomTree International entered into a Credit Agreement, by and among the Company, WisdomTree International, certain subsidiaries of the Company as guarantors, the lenders party thereto and Credit Suisse AG, Cayman Islands Branch, as administrative agent, collateral agent, L/C Issuer and lender. Under the Credit Agreement, the lenders extended a \$200,000 Term Loan to WisdomTree International, the net cash proceeds of which were used by WisdomTree International, together with other cash on hand, to complete the ETFs Acquisition and pay certain fees, costs and expenses, and made a \$50,000 Revolver available to the Company and WisdomTree International for revolving borrowings from time to time for working capital, capital expenditures and general corporate purposes. Interest on the Term Loan accrues at a rate per annum equal to LIBOR, plus up to 2.00% (commencing at LIBOR, plus 1.75%), and interest on the Revolver accrues at a rate per annum equal to LIBOR, plus up to 1.50% (commencing at LIBOR, plus 1.25%), in each case, with the exact interest rate margin determined based on the Total Leverage Ratio (as defined below). The Revolver is also subject to a facility fee equal to a rate per annum of up to 0.50% of the actual daily amount of the aggregate commitments (whether used or unused) under the Revolver, with the exact facility fee rate determined based on the Total Leverage Ratio. The Credit Facility matures on April 11, 2021 (the Maturity Date). The Term Loan does not amortize and the entire principal balance is due in a single payment on the Maturity Date.

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The following table provides a summary of the Company's outstanding borrowings under the Credit Facility:

|  | <b>September 30, 2018</b> |                 |
|--|---------------------------|-----------------|
|  | <b>Term Loan</b>          | <b>Revolver</b> |
| Amount borrowed                        | \$ 200,000                | \$              |
| Unamortized issuance costs             | (6,001)                   | 1,328           |
| <b>Carrying amount</b>                 | <b>\$ 193,999</b>         | <b>\$ 1,328</b> |
| Effective interest rate <sup>(1)</sup> | 4.99%                     | n/a             |

(1) Includes amortization of issuance costs.

During the three and nine months ended September 30, 2018, the Company recognized \$2,747 and \$5,103, respectively, of interest expense on the Credit Facility. Unamortized issuance costs of \$1,328 related to the Revolver are included within other noncurrent assets on the Consolidated Balance Sheet.

The Credit Agreement includes a financial covenant that requires that the Company maintain a Total Leverage Ratio, calculated as of the last day of each fiscal quarter commencing with the fiscal quarter ending September 30, 2018, equal to or less than the ratio set forth opposite such fiscal quarter:

| <b>Fiscal Quarter Ending</b>  | <b>Total Leverage Ratio</b> |
|---|-----------------------------|
| September 30, 2018  | 2.75:1.00                   |
| December 31, 2018   | 2.75:1.00                   |
| March 31, 2019  | 2.75:1.00                   |
| June 30, 2019   | 2.50:1.00                   |
| September 30, 2019  | 2.50:1.00                   |
| December 31, 2019   | 2.50:1.00                   |
| March 31, 2020  | 2.25:1.00                   |
| June 30, 2020   | 2.25:1.00                   |
| September 30, 2020 and each subsequent fiscal quarter ending on or before the Maturity Date | 2.00:1.00                   |

Total Leverage Ratio means, as of the last day of any fiscal quarter, the ratio of Consolidated Total Debt of the Company and its restricted subsidiaries (as defined in the Credit Agreement) as of such date to Consolidated EBITDA of the Company and its restricted subsidiaries (as defined in the Credit Agreement) for the four consecutive fiscal quarters ended on such date.

WisdomTree International's obligations under the Term Loan and Revolver are unconditionally guaranteed by the Company and certain of its subsidiaries and secured by a lien on substantially all of the present and future property and assets of the Company, WisdomTree International and such subsidiaries, in each case, subject to customary exceptions and exclusions. The Company's obligations under the Revolver are unconditionally guaranteed by certain of the Company's wholly-owned domestic subsidiaries and secured by substantially all of the present and future property and assets of the Company and such subsidiaries, in each case, subject to customary exceptions and

exclusions.

The Credit Agreement contains customary affirmative covenants for transactions of this type and other affirmative covenants agreed to by the parties, including, among others, the provision of annual and quarterly financial statements and compliance certificates, maintenance of property, insurance, compliance with laws and environmental matters. The Credit Agreement contains customary negative covenants, including among others, restrictions on the incurrence of indebtedness, granting of liens, making investments and acquisitions, paying dividends, repurchasing equity interests of the Company, entering into affiliate transactions and asset sales. The Credit Agreement also provides for a number of customary events of default, including, among others, payment, bankruptcy, covenant, representation and warranty, change of control and judgment defaults.

The Company was in compliance with its covenants under the Credit Agreement during the period April 11, 2018 through September 30, 2018.

**Table of Contents****13. Preferred Shares**

On April 10, 2018, the Company filed a Certificate of Designations of Series A Non-Voting Convertible Preferred Stock with the Secretary of State of the State of Delaware establishing the rights, preferences, privileges, qualifications, restrictions, and limitations relating to the Preferred Shares. The Preferred Shares are intended to provide ETFS Capital with economic rights equivalent to the Company's common stock on an as-converted basis. The Preferred Shares have no voting rights, are not transferable and have the same priority with regard to dividends, distributions and payments as the common stock.

As described in the Certificate of Designations, the Company will not issue, and ETFS Capital does not have the right to require the Company to issue, any shares of common stock upon conversion of the Preferred Shares, if, as a result of such conversion, ETFS Capital (together with certain attribution parties) would beneficially own more than 9.99% of the Company's outstanding common stock immediately after giving effect to such conversion.

In connection with the completion of the ETFS Acquisition, the Company issued 14,750 Preferred Shares, which are convertible into an aggregate of 14,750,000 shares of common stock. The fair value of this consideration was \$132,750, based on the closing price of the Company's common stock on April 10, 2018 of \$9.00 per share, the last trading day prior to the closing of the acquisition.

The following is a summary of the Preferred Share balance:

|  | <b>September 30,<br/>2018</b> |
|--|-------------------------------|
| Issuance of Preferred Shares           | \$ 132,750                    |
| Less: Issuance costs                   | (181)                         |
| <b>Preferred Shares carrying value</b> | <b>\$ 132,569</b>             |

Temporary equity classification is required for redeemable instruments for which redemption triggers are outside of the issuer's control. ETFS Capital has the right to redeem all the Preferred Shares specified to be converted during the period of time specified in the Certificate of Designations in the event that: (a) the number of shares of the Company's common stock authorized by its certificate of incorporation is insufficient to permit the Company to convert all of the Preferred Shares requested by ETFS Capital to be converted; or (b) ETFS Capital does not, upon completion of a change of control of the Company, receive the same amount per Preferred Share as it would have received had each outstanding Preferred Share been converted into common stock immediately prior to the change of control. However, the Company will not be obligated to make any such redemption payments to the extent such payments would be a breach of any covenant or obligation the Company owes to any of its secured creditors or is otherwise prohibited by applicable law.

Any such redemption will be at a price per Preferred Share equal to the dollar volume-weighted average price for a share of common stock for the 30-trading day period ending on the date of such attempted conversion or change of control, as applicable, multiplied by 1,000. Such redemption payment will be made in one payment no later than 10 business days following the last day of the Company's first fiscal quarter that begins on a date following the date ETFS Capital exercises such redemption right.

The carrying amount of the Preferred Shares were not adjusted during the three and nine months ended September 30, 2018 as it was not probable that they would become redeemable.

#### 14. Commitments and Contingencies

##### *Contractual Obligations*

The Company has entered into obligations under operating leases with initial non-cancelable terms in excess of one year for office space, telephone and data services. Expenses recorded under these agreements for the three months ended September 30, 2018 and 2017 were approximately \$1,435 and \$1,177, respectively, and for the nine months ended September 30, 2018 and 2017 were \$3,751 and \$3,327, respectively.

Future minimum lease payments with respect to non-cancelable operating leases at September 30, 2018 were approximately as follows:

|                     |           |
|---------------------|-----------|
| Remainder of 2018   | \$ 1,282  |
| 2019                | 4,457     |
| 2020                | 4,007     |
| 2021                | 3,082     |
| 2022 and thereafter | 21,300    |
| Total               | \$ 34,128 |

**Table of Contents*****Letter of Credit***

The Company collateralized its U.S. office lease through a standby letter of credit totaling \$1,384. The collateral is included in cash and cash equivalents on the Company's Consolidated Balance Sheets.

***Contingencies***

The Company may be subject to reviews, inspections and investigations by regulatory authorities as well as legal proceedings arising in the ordinary course of business. The Company is not currently party to any litigation that is expected to have a material adverse impact on its business, financial position, results of operations or cash flows.

**15. Variable Interest Entity**

VIEs are entities with any of the following characteristics: (i) the entity does not have enough equity to finance its activities without additional financial support, (ii) the equity holders, as a group, lack the characteristics of a controlling financial interest or (iii) the entity is structured with non-substantive voting rights. The Company determined that AdvisorEngine has the characteristics of a VIE.

Consolidation of a VIE is required for the party deemed to be the primary beneficiary, if any. The primary beneficiary is the party who has both (a) the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (b) an obligation to absorb losses of the entity or a right to receive benefits from the entity that could potentially be significant to the entity. The Company is not the primary beneficiary of AdvisorEngine as it does not have the power to direct the activities that most significantly impact AdvisorEngine's economic performance. Such power is conveyed through AdvisorEngine's Board of Directors and the Company does not have control over the board.

The following table presents information about the Company's variable interests in AdvisorEngine (a non-consolidated VIE):

|                                       | <b>September 30,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|---------------------------------------|-------------------------------|------------------------------|
| <b>Carrying Amount - Assets</b>       |                               |                              |
| Preferred stock                       | \$ 25,000                     | \$ 25,000                    |
| Note receivable - unsecured           | 28,121                        | 18,748                       |
| Option                                | 3,278                         | 3,278                        |
| <b>Total carrying amount - Assets</b> | <b>\$ 56,399</b>              | <b>\$ 47,026</b>             |
| Maximum exposure to loss              | \$ 56,399                     | \$ 55,026                    |

**16. Revenues from Contracts with Customers**

The following table presents the Company's total revenues from contracts with customers:

|  | <b>Three<br/>Months<br/>Ended<br/>September 30,<br/>2018</b> | <b>Nine Months<br/>Ended<br/>September 30,<br/>2018</b> |
|--|--|---|
| <b>Revenues from contracts with customers:</b> |  |   |
| Advisory fees                                  | \$ 71,679  | \$ 203,913  |
| Other  | 891  | 2,336   |
| <br>Total operating revenues                   | <br>\$ 72,570  | <br>\$ 206,249  |

The Company recognizes revenues from contracts with customers when the performance obligation is satisfied, which is when the promised goods or services are transferred to the customer. A good or service is considered to be transferred when the customer obtains control, which is represented by the transfer of rights with regard to the good or service. Transfer of control happens either over time or at a point in time. When a performance obligation is satisfied over time, an entity is required to select a single method of measuring progress for each performance obligation that depicts the entity's performance in transferring control of goods or services to the customer.

Substantially all the Company's revenues from contracts with customers are derived primarily from investment advisory agreements with related parties (See Note 17). These advisory fees are recognized over time, are earned from the Company's ETPs and are calculated based on a percentage of the ETPs' average daily net assets. There is no significant judgment in calculating amounts due which are invoiced monthly in arrears and are not subject to any potential reversal. Progress is measured using the practical expedient under the output method resulting in the recognition of revenue in the amount for which the Company has a right to invoice.

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There are no contract assets or liabilities that arise in connection with the recognition of advisory fee revenue. In addition, there are no costs incurred to obtain or fulfill the contracts with customers, all of which are investment advisory agreements with related parties.

See Note 17 for further information including disaggregation of advisory fee revenue and amounts due from customers, all of which are derived from related parties. Advisory fee revenues are also reported by segment as disclosed in Note 23.

**17. Related Party Transactions**

The Company's revenues are derived primarily from investment advisory agreements with related parties. Under these agreements, the Company has licensed to related parties the use of certain of its own indexes for the U.S. and Canadian WisdomTree ETFs and WisdomTree UCITS ETFs. The Board of Trustees and Board of Directors (including certain officers of the Company) of the related parties are primarily responsible for overseeing the management and affairs of the entities for the benefit of their stakeholders and have contracted with the Company to provide for general management and administration services. The Company is also responsible for certain expenses of the related parties, including the cost of transfer agency, custody, fund administration and accounting, legal, audit, and other non-distribution services, excluding extraordinary expenses, taxes and certain other expenses, which is included in fund management and administration on the Company's Consolidated Statements of Operations. In exchange, the Company receives fees based on a percentage of the ETF average daily net assets. The advisory agreements may be terminated by the related parties upon notice.

The following table summarizes accounts receivable from related parties which are included as a component of Accounts receivable on the Company's Consolidated Balance Sheets:

|                              | <b>September 30,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|------------------------------|-------------------------------|------------------------------|
| Receivable from WTT          | \$ 16,057                     | \$ 19,433                    |
| Receivable from ETFS Issuers | 7,684                         |                              |
| Receivable from BI and WTI   | 861                           | 979                          |
| Receivable from WTAMC        | 163                           | 87                           |
| Receivable from WTCS         | 100                           | 97                           |
| Total                        | \$ 24,865                     | \$ 20,596                    |

The following table summarizes revenues from advisory services provided to related parties:

|  | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|---|-------------|--|-------------|
|  | <b>2018</b>                                 | <b>2017</b> | <b>2018</b>                                | <b>2017</b> |
| Advisory services provided to WTT          | \$ 49,900                                   | \$ 54,439   | \$ 157,693                                 | \$ 158,206  |
| Advisory services provided to ETFS Issuers | 18,442                                      |             | 36,161                                     |             |
| Advisory services provided to BI and WTI   | 2,532                                       | 2,452       | 7,883                                      | 6,498       |
| Advisory services provided to WTAMC        | 489   | 92          | 1,204                                      | 263         |



|                                    |           |           |            |            |
|------------------------------------|-----------|-----------|------------|------------|
| Advisory services provided to WTCS | 316       | 310       | 972        | 1,210      |
| Total                              | \$ 71,679 | \$ 57,293 | \$ 203,913 | \$ 166,177 |

The Company also has investments in certain WisdomTree ETFs of approximately \$2,720 and \$1,691 at September 30, 2018 and December 31, 2017, respectively. Gains and losses related to these ETFs for the three and nine months ended September 30, 2018 and 2017 were less than \$100.

## 18. Stock-Based Awards

The Company grants equity awards to employees and directors which include restricted stock awards, restricted stock units and stock options. Stock options may be issued for terms of ten years and may vest after at least one year and have an exercise price equal to the Company's stock price on the grant date. Restricted stock awards and restricted stock units are generally valued based on the Company's stock price on the grant date. The Company estimates the fair value for stock options (when granted) using the Black-Scholes option pricing model. All restricted stock awards, restricted stock units and stock option awards require future service as a condition of vesting with certain awards subject to acceleration under certain conditions.

On June 20, 2016, the Company's stockholders approved a new equity award plan under which the Company can issue up to 10,000,000 shares of common stock (less one share for every share granted under prior plans since March 31, 2016 and inclusive of shares available under the prior plans as of March 31, 2016) in the form of stock options and other stock-based awards. The Company also has issued from time to time stock-based awards outside a plan.

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Stock-based compensation for the three months ended September 30, 2018 and 2017 was \$3,240 and \$3,607, respectively, and for the nine months ended September 30, 2018 and 2017 was \$10,078 and \$10,558, respectively.

A summary of unrecognized stock-based compensation expense and average remaining vesting period is as follows:

|                         | <b>September 30, 2018</b>                             |   |
|-------------------------|---|---|
|                         | <b>Unrecognized Stock-<br/>Based<br/>Compensation</b> | <b>Average<br/>Remaining<br/>Vesting Period (Years)</b> |
| Employees and directors | \$ 15,974   | 1.66  |

A summary of stock options, restricted stock and restricted stock unit activity for the three months ended September 30, 2018 is as follows:

|                               | <b>Stock<br/>Options</b> | <b>Restricted<br/>Stock<br/>Awards</b> | <b>Restricted<br/>Stock<br/>Units</b> |
|-------------------------------|--------------------------|--|---------------------------------------|
| Balance at July 1, 2018       | 975,537                  | 2,331,946                              | 12,096                                |
| Granted                       |                          |  |                                       |
| Exercised/vested              | (25,000)                 | (156,752)                              | (1,156)                               |
| Forfeitures                   |                          | (37,568)                               |                                       |
| Balance at September 30, 2018 | 950,537                  | 2,137,626                              | 10,940                                |

**19. Earnings Per Share**

The following tables set forth reconciliations of the basic and diluted earnings per share computations for the periods presented:

|  | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|---|-------------|--|-------------|
|  | <b>2018</b>                                 | <b>2017</b> | <b>2018</b>                                | <b>2017</b> |
| <b>Basic Earnings per Share</b>                                  |   |             |  |             |
| Net income   | \$ 22,049                                   | \$ 7,976    | \$ 48,197                                  | \$ 26,961   |
| Less: Income distributed to participating securities             | (507)                                       | (175)       | (1,091)                                    | (523)       |
| Less: Undistributed income allocable to participating securities | (1,719)                                     |             | (2,518)                                    |             |
| Net income available to common stockholders                      | \$ 19,823                                   | \$ 7,801    | \$ 44,588                                  | \$ 26,438   |
| Weighted average common shares (in thousands)                    | 150,892                                     | 134,709     | 145,149                                    | 134,552     |
| Basic earnings per share   | \$ 0.13                                     | \$ 0.06     | \$ 0.31                                    | \$ 0.20     |

| <b>Diluted Earnings per Share</b>                      | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|  | <b>2018</b>               | <b>2017</b> | <b>2018</b>              | <b>2017</b> |
| Net income   | \$ 22,049                 | \$ 7,976    | \$ 48,197                | \$ 26,961   |
| <u>Weighted Average Diluted Shares (in thousands):</u> |                           |             |                          |             |
| Weighted average common shares                         | 150,892                   | 134,709     | 145,149                  | 134,552     |
| Dilutive effect of common stock equivalents            | 9,730                     | 1,224       | 10,435                   | 1,216       |
| Weighted average diluted shares                        | 166,622                   | 135,933     | 155,584                  | 135,768     |
| Diluted earnings per share                             | \$ 0.13                   | \$ 0.06     | \$ 0.31                  | \$ 0.20     |

Diluted earnings per share is calculated under the treasury stock and if-converted method and the two-class method and reflects the reduction in earnings per share assuming options or other contracts to issue common stock were exercised or converted into common stock (if dilutive). The calculation that results in the most dilutive earnings per share amount for common stock is reported in the Company's consolidated financial statements. The Company excluded 1,243,549 and 337,682 common stock equivalents from its computation of diluted earnings per share for the three months ended September 30, 2018 and 2017, respectively, and 1,406,844 and 1,745,469 common stock equivalents from its computation of diluted earnings per share for the nine months ended September 30, 2018 and 2017, respectively, as they were determined to be anti-dilutive.

**Table of Contents****20. Income Taxes*****Effective Income Tax Rate Three and Nine Months Ended September 30, 2018***

The Company's estimated effective income tax rate for the three months ended September 30, 2018 of 19.9% resulted in income tax expense of \$5,481. The Company's tax rate differs from the federal statutory tax rate of 21% primarily due to the non-taxable gain on revaluation of deferred consideration and a lower tax rate on foreign earnings, partly offset by a valuation allowance on foreign net operating losses and state and local income taxes.

The Company's estimated effective income tax rate for the nine months ended September 30, 2018 of 24.3% resulted in income tax expense of \$15,439. The Company's tax rate differs from the federal statutory tax rate of 21% primarily due to a valuation allowance on foreign net operating losses, state and local income taxes and non-deductible acquisition-related costs, partly offset by the gain on revaluation of deferred consideration and a lower tax rate on foreign earnings.

***Effective Income Tax Rate Three and Nine Months Ended September 30, 2017***

The Company's estimated effective income tax rate for the three months ended September 30, 2017 of 48.5% resulted in income tax expense of \$7,520. The Company's tax rate differs from the federal statutory tax rate of 35% primarily due to a valuation allowance on foreign net operating losses and state and local income taxes.

The Company's estimated effective income tax rate for the nine months ended September 30, 2017 of 48.7% resulted in income tax expense of \$25,582. The Company's tax rate differs from the federal statutory tax rate of 35% primarily due to a valuation allowance on foreign net operating losses, tax shortfalls associated with the vesting of stock-based compensation awards and state and local income taxes.

***Net Operating Losses U.S.***

The Company's pre-tax federal net operating losses for tax purposes ( NOLs ) at September 30, 2018 were \$3,147, which expire in 2024. The net operating loss carryforwards have been reduced by the impact of annual limitations described in the Internal Revenue Code Section 382 that arose as a result of an ownership change.

***Net Operating Losses International***

The Company's European and Canadian subsidiaries generated NOLs outside the U.S. These tax effected NOLs were \$5,747 at September 30, 2018. The Company established a full valuation allowance related to these NOLs as it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized.

***Deferred Tax Assets***

A summary of the components of the Company's deferred tax assets at September 30, 2018 and December 31, 2017 are as follows:

|                      | <b>September 30,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|----------------------|-------------------------------|------------------------------|
| Deferred tax assets: |                               |                              |

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|   |          |          |
|---|----------|----------|
| NOLs Foreign  | \$ 5,747 | \$ 3,841 |
| Stock-based compensation                                | 2,206    | 1,474    |
| Deferred rent liability                                 | 1,195    | 1,257    |
| NOLs U.S.   | 762      | 909      |
| Accrued expenses  | 1,611    | 526      |
| Other   | 207      | 488      |
| Deferred tax assets                                     | 11,728   | 8,495    |
| Deferred tax liabilities:                               |          |          |
| Unrealized gains  | 1,666    | 1,718    |
| Fixed assets  | 1,495    | 1,498    |
| Goodwill and intangible assets                          | 522      | 388      |
| Prepaid assets  | 85       |          |
| Deferred tax liabilities                                | 3,768    | 3,604    |
| Total deferred tax assets less deferred tax liabilities |          |          |
|   | 7,960    | 4,891    |
| Less: valuation allowance                               | (5,747)  | (3,841)  |
| Deferred tax assets, net                                | \$ 2,213 | \$ 1,050 |

**Table of Contents*****Uncertain Tax Positions***

Tax positions are evaluated utilizing a two-step process. The Company first determines whether any of its tax positions are more-likely-than-not to be sustained upon examination, based solely on the technical merits of the position. Once it is determined that a position meets this recognition threshold, the position is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement.

In connection with the ETFS Acquisition, the Company accrued a liability of £18,102 (\$25,631) for uncertain tax positions and £3,415 (\$4,835) for interest and penalties at the acquisition date. During the three months ended September 30, 2018, the liability for uncertain tax positions and interest penalties at the acquisition date was adjusted by £4,016 (\$5,686) and £1,650 (\$2,336), respectively.

The table below sets forth the aggregate changes in the balance of gross unrecognized tax benefits:

|   | <b>Total</b> | <b>Unrecognized<br/>Tax<br/>Benefits</b> | <b>Interest and<br/>Penalties</b> |
|---|--------------|--|-----------------------------------|
| Balance on January 1, 2018                      | \$           | \$                                       | \$                                |
| Accrued in connection with the ETFS Acquisition | 38,488       | 31,317                                   | 7,171                             |
| Increases                                       | 227          |  | 227                               |
| Foreign currency translation <sup>(1)</sup>     | (3,061)      | (2,491)                                  | (570)                             |
| Balance at September 30, 2018                   | \$ 35,654    | \$ 28,826                                | \$ 6,828                          |

(1) The gross unrecognized tax benefits were accrued in British pounds sterling.

The Company also recorded an offsetting indemnification asset provided by ETFS Capital as part of its agreement to indemnify the Company for any potential claims, for which an amount is being held in escrow. ETFS Capital has also agreed to provide additional collateral by maintaining a minimum working capital balance up to a stipulated amount. The gross unrecognized tax benefits and interest and penalties totaling \$35,654 at September 30, 2018 are included in other non-current liabilities on the Consolidated Balance Sheet. It is expected that the amount of unrecognized tax benefits will change in the next 12 months, however, the Company does not expect the change to have a material impact on its consolidated financial statements.

At September 30, 2018, there were \$28,826 of unrecognized tax benefits that, if recognized, would impact the effective tax rate. The recognition of any unrecognized tax benefits would result in an equal and offsetting adjustment to the indemnification asset which would be recorded in income before taxes.

***Income Tax Examinations***

The Company is subject to U.S. federal income tax as well as income tax of multiple state, local and certain foreign jurisdictions. The tax return for the year ended December 31, 2016 of ManJer, the Company's Jersey-based subsidiary, is currently under review by the relevant tax authority. The Company is indemnified by ETFS Capital for any potential exposure.

The Company is not currently under audit in any other income tax jurisdictions. As of September 30, 2018, with few exceptions, the Company was no longer subject to income tax examinations by any taxing authority for years before 2014.

## **21. Shares Repurchased**

On October 29, 2014, the Company's Board of Directors authorized a three-year share repurchase program of up to \$100,000. On April 27, 2016, the Board of Directors approved a \$60,000 increase to the Company's share repurchase program and extended the term through April 27, 2019. Included under this program are purchases to offset future equity grants made under the Company's equity plans and are made in open market or privately negotiated transactions. This authority may be exercised from time to time and in such amounts as market conditions warrant, and subject to regulatory considerations. The timing and actual number of shares repurchased depends on a variety of factors including price, corporate and regulatory requirements, market conditions and other corporate liquidity requirements and priorities. The repurchase program may be suspended or terminated at any time without prior notice. Shares repurchased under this program are returned to the status of authorized and unissued on the Company's books and records.

As more fully disclosed in Note 3, the Company completed the ETFs Acquisition on April 11, 2018. To partially finance the acquisition, the Company and WisdomTree International entered into a Credit Agreement which contains customary negative covenants, including, among others, a covenant which may restrict the Company's ability to repurchase equity interests. Share repurchases only are permitted to the extent the Total Leverage Ratio (as defined in the Credit Agreement) does not exceed 1.75 to 1.00 and no event of default (as defined in the Credit Agreement) has occurred and is continuing at the time the share repurchase is made. However, the Company's ability to purchase shares of its common stock withheld pursuant to the terms of equity awards granted to employees to satisfy tax withholding obligations is not restricted.

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During the three and nine months ended September 30, 2018, the Company repurchased 47,816 shares and 135,041 shares of its common stock, respectively, under this program for an aggregate cost of \$424 and \$1,430, respectively.

During the three and nine months ended September 30, 2017, the Company repurchased 47,317 shares and 401,813 shares of its common stock, respectively, under this program for an aggregate cost of \$484 and \$4,178, respectively.

As of September 30, 2018, \$87,184 remains under this program for future purchases.

**22. Goodwill and Intangible Assets****Goodwill**

The table below sets forth goodwill by reporting unit. Goodwill allocated to the U.S. Business reporting unit is tested annually for impairment on April 30<sup>th</sup>. Goodwill allocated to the European Business reporting unit is tested annually for impairment on November 30<sup>th</sup>.

|                               | Reporting Unit                   |               |           |
|-------------------------------|----------------------------------|---------------|-----------|
|                               | European Business <sup>(1)</sup> | U.S. Business | Total     |
| Balance at January 1, 2018    | \$                               | \$ 1,799      | \$ 1,799  |
| Increases/(decreases)         | 84,057                           |               | 84,057    |
| Balance at September 30, 2018 | \$ 84,057                        | \$ 1,799      | \$ 85,856 |

(1) Europe is included in the Company's International Business reportable segment.

Goodwill allocated to the U.S. Business reporting unit was tested for impairment on April 30, 2018. The fair value of the reporting unit exceeded its carrying value and therefore no impairment was recognized.

**European Business Reporting Unit ETFS Acquisition**

As more fully disclosed in Note 3, the Company completed the ETFS Acquisition on April 11, 2018. In connection with the acquisition, the Company recognized \$84,057 of goodwill which was allocated to the European Business reporting unit. The goodwill represents the value of expected synergies created from combining the operations of ETFS and the Company. The goodwill is not deductible for tax purposes as the transaction was structured as a stock acquisition occurring in the United Kingdom.

**U.S. Business Reporting Unit WisdomTree Continuous Commodity Index Fund**

Effective January 1, 2016, the Company acquired the outstanding membership interest in GreenHaven Commodity Services, LLC, the managing owner of the Greehaven Continuous Commodity Index Fund (renamed the WisdomTree Continuous Commodity Index Fund, or GCC). In connection with the acquisition, the Company recognized \$1,799 of goodwill which was allocated to the U.S Business reporting unit. The goodwill primarily represents the potential future performance of the fund and is deductible for tax purposes.





**Table of Contents****Intangible Assets (Indefinite-Lived)**

|                               | Advisory<br>Agreements<br>(ETFs) | Advisory<br>Agreements<br>(Questrade AUM) | Advisory<br>Agreement<br>(GCC) | Total      |
|-------------------------------|----------------------------------|---|--------------------------------|------------|
| Balance at January 1, 2018    | \$                               | \$ 2,132                                  | \$ 9,953                       | \$ 12,085  |
| Foreign currency translation  |                                  | (58)                                      |                                | (58)       |
| Other increases/(decreases)   | 601,247                          |   |                                | 601,247    |
| Balance at September 30, 2018 | \$ 601,247                       | \$ 2,074                                  | \$ 9,953                       | \$ 613,274 |

**ETFs**

In connection with the ETFs Acquisition which was completed on April 11, 2018 (see Note 3), the Company identified intangible assets valued at \$601,247 related to the right to manage AUM through customary advisory agreements. The fair value of the intangible assets was determined using an income approach (discounted cash flow analysis) which relied upon significant unobservable inputs including a revenue growth multiple of 3% to 4% and a weighted average cost of capital of 11.6%. The intangible assets were determined to have indefinite useful lives and are not deductible for tax purposes. The Company has designated November 30<sup>th</sup> as its annual impairment testing date for these intangible assets.

**Questrade ETFs**

During the fourth quarter of 2017, the Company acquired a suite of eight Canadian listed ETFs from Questrade, Inc. (the Questrade ETFs) with approximately CAD \$99,108 (USD \$77,403) in AUM at closing. The purchase price was CAD \$2,675 (USD \$2,132), all of which was allocated to the Company's right to manage AUM in the form of advisory contracts. This intangible asset is translated based on the end of period exchange rates from local currency to U.S. dollars.

Most of the Questrade ETFs were merged into the Company's existing Canadian listed ETFs. The intangible assets (which are deductible for tax purposes) were determined to have an indefinite useful life. The Company has designated November 30<sup>th</sup> as its annual impairment testing date for these intangible assets.

**GCC**

As part of the GreenHaven acquisition which occurred on January 1, 2016, the Company identified an intangible asset valued at \$9,953 related to its customary advisory agreement with GCC. This intangible asset (which is deductible for tax purposes) was determined to have an indefinite useful life. The Company has designated November 30<sup>th</sup> as its annual impairment testing date for this indefinite-lived intangible asset.

**23. Segment Reporting**

The Company operates as an ETP sponsor and asset manager providing investment advisory services globally. These activities are reported in the Company's U.S. Business and International Business reportable segments. The International Business reportable segment includes the results of the Company's European operations and Canadian operations.



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Information concerning these reportable segments are as follows:

|  | <b>Three Months Ended<br/>September 30,</b> |                   | <b>Nine Months Ended<br/>September 30,</b> |                    |
|--|---|-------------------|--|--------------------|
|  | <b>2018</b>                                 | <b>2017</b>       | <b>2018</b>                                | <b>2017</b>        |
| <b><i>U.S. Business Segment</i></b>                                      |   |                   |  |                    |
| <b><i>Operating revenues</i></b>   |   |                   |  |                    |
| Advisory fees  | \$ 50,216                                   | \$ 54,749         | \$ 158,665                                 | \$ 159,417         |
| Other income   | 173   | 140               | 482  | 371                |
| <b>Total operating revenues</b>  | <b>\$ 50,389</b>                            | <b>\$ 54,889</b>  | <b>\$ 159,147</b>                          | <b>\$ 159,788</b>  |
| <b>Total operating expenses</b>  | <b>\$(33,774)</b>                           | <b>\$(36,846)</b> | <b>\$(115,442)</b>                         | <b>\$(107,023)</b> |
| <b><i>Other income/(expenses)</i></b>                                    |   |                   |  |                    |
| Interest expense   | \$ (196)                                    | \$                | \$ (369)                                   | \$                 |
| Interest income  | 719   | 772               | 2,293                                      | 1,999              |
| Settlement gain  |   |                   |  | 6,909              |
| Other gains and losses, net  | 318   | (322)             | 26   | 39                 |
| <b>Total other income</b>  | <b>\$ 841</b>                               | <b>\$ 450</b>     | <b>\$ 1,950</b>                            | <b>\$ 8,947</b>    |
| <b>Total income before taxes (U.S. Business Segment)</b>                 | <b>\$ 17,456</b>                            | <b>\$ 18,493</b>  | <b>\$ 45,655</b>                           | <b>\$ 61,712</b>   |
| <b><i>International Business Segment <sup>(1)</sup></i></b>              |   |                   |  |                    |
| <b><i>Operating revenues</i></b>   |   |                   |  |                    |
| Advisory fees  | \$ 21,463                                   | \$ 2,544          | \$ 45,248                                  | \$ 6,760           |
| Other income   | 718   | 281               | 1,854                                      | 774                |
| <b>Total operating revenues</b>  | <b>\$ 22,181</b>                            | <b>\$ 2,825</b>   | <b>\$ 47,102</b>                           | <b>\$ 7,534</b>    |
| <b>Total operating expenses</b>  | <b>\$(17,088)</b>                           | <b>\$(5,644)</b>  | <b>\$(41,347)</b>                          | <b>\$(16,447)</b>  |
| <b><i>Other income/(expenses)</i></b>                                    |   |                   |  |                    |
| Interest expense   | \$ (2,551)                                  | \$                | \$ (4,734)                                 | \$                 |
| Interest income  |   |                   |  |                    |
| Gain on revaluation of deferred consideration                            | 7,732                                       |                   | 17,630                                     |                    |
| Other gains and losses, net  | (200)                                       | (178)             | (670)                                      | (256)              |
| <b>Total other income/(expenses)</b>                                     | <b>\$ 4,981</b>                             | <b>\$ (178)</b>   | <b>\$ 12,226</b>                           | <b>\$ (256)</b>    |
| <b>Total income/(loss) before taxes (International Business Segment)</b> | <b>\$ 10,074</b>                            | <b>\$ (2,997)</b> | <b>\$ 17,981</b>                           | <b>\$ (9,169)</b>  |
| <b>Income/(loss) before taxes</b>  |   |                   |  |                    |

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|                                  |                  |                  |                  |                  |
|----------------------------------|------------------|------------------|------------------|------------------|
| U.S. Business segment            | \$ 17,456        | \$ 18,493        | \$ 45,655        | \$ 61,712        |
| International Business segment   | 10,074           | (2,997)          | 17,981           | (9,169)          |
| <b>Total income before taxes</b> | <b>\$ 27,530</b> | <b>\$ 15,496</b> | <b>\$ 63,636</b> | <b>\$ 52,543</b> |

Assets are not reported by segment as such information is not utilized by the chief operating decision maker.

(1) The financial results of ETFs are included in the International Business reportable segment as of April 11, 2018.

**24. Subsequent Events**

The Company evaluated subsequent events through the date of issuance of the accompanying consolidated financial statements. There were no events requiring disclosure.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements and the related notes and the other financial information included elsewhere in this Report. In addition to historical consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below. For a more complete description of the risks noted above and other risks that could cause our actual results to materially differ from our current expectations, please see Item 1A Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 and Quarterly Report on Form 10-Q for the quarter ended March 31, 2018. We assume no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law.*

**Executive Summary**

***Introduction***

We are the only publicly-traded asset management company that focuses exclusively on ETPs and are one of the leading ETP sponsors in the world based on assets under management, or AUM, with AUM of \$59.1 billion globally as of September 30, 2018. An ETP is a pooled investment vehicle that holds a basket of securities, financial instruments or other assets and generally seeks to track (index-based) or outperform (actively managed) the performance of a broad or specific equity, fixed income or alternatives market segment, commodity or currency (or an inverse or multiple thereof). ETPs are listed on an exchange with their shares traded in the secondary market at market prices, generally at approximately the same price as the net asset value of their underlying components. ETP is an umbrella term that includes ETFs, exchange-traded notes and exchange-traded commodities.

On November 13, 2017, we entered into a Share Sale Agreement as amended by the Waiver and Variation Agreement, dated April 11, 2018 (collectively referred to as the Share Sale Agreement) with ETFs Capital Limited (ETFs Capital, formerly known as ETF Securities Limited) and WisdomTree International Holdings Ltd, an indirect wholly owned subsidiary of ours (WisdomTree International), pursuant to which we agreed to acquire the European exchange-traded commodity, currency and short-and-leveraged business, or ETFs, of ETFs Capital. On April 11, 2018, we completed the acquisition of ETFs, or the ETFs Acquisition, by purchasing the entire issued share capital of a subsidiary of ETFs Capital into which ETFs Capital transferred ETFs prior to completion of the ETFs Acquisition. ETFs had approximately \$17.6 billion of AUM as of April 10, 2018. The ETFs Acquisition elevated us to the ninth largest ETP sponsor globally and the largest global independent ETP provider based on AUM, with significant scale and presence in the U.S. and Europe, the two largest ETP markets.

Our U.S. listed ETFs make up a majority of our global AUM. Our family of ETFs include funds that track our own indexes, funds that track third-party indexes and actively managed funds. We distribute our ETFs through all major channels within the asset management industry, including brokerage firms, registered investment advisers and institutional investors.

We focus on creating ETFs for investors that offer thoughtful innovation, smart engineering and redefined investing. Most of our index-based funds employ a fundamentally weighted investment methodology, which weights securities on the basis of factors such as dividends or earnings, whereas most other ETF industry indexes use a capitalization weighted methodology. We also offer actively managed ETFs, which are ETFs that are not based on a particular index

but rather are actively managed with complete transparency into the ETF's portfolio on a daily basis. Our broad exemptive relief enables us to use our own indexes for certain of our ETFs and actively manage other ETFs.

We strive to deliver a better investing experience through innovative solutions. Recent investments in technology-enabled services and the launch of our Advisor Solutions program in October 2017, which includes portfolio construction, asset allocation, practice management services and wealth management technology via the AdvisorEngine platform, have been made to differentiate us in the market, expand our distribution and further enhance our relationships with financial advisors.

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### ***Assets Under Management***

#### *WisdomTree ETPs*

The following chart sets forth the asset mix of our WisdomTree ETPs as of September 30, 2018:

A significant portion of our AUM is held in ETFs that invest in foreign securities. Therefore, our AUM and revenues are affected by movements in global capital market levels and the strengthening or weakening of the U.S. dollar against other currencies. As the chart above reflects, as of September 30, 2018, approximately 19% of our AUM was concentrated in two products with similar strategies – HEDJ, our European equity ETF which hedges exposure to the Euro, and DXJ, our Japanese equity ETF which hedges exposure to the Yen. The strengthening of the Euro or Yen against the U.S. dollar, or the decline in European or Japanese equity markets, may have an adverse effect on our results.

The addition of the AUM of ETFS improves both fund and investment theme concentrations, resulting in a well-diversified mix with immediate scale in commodities and an industry leading position in European listed gold products. These products historically have been negatively correlated with our two largest ETFs, HEDJ and DXJ, and therefore we may experience improved stability of AUM and lower overall AUM volatility. However, we have not recently experienced lower overall AUM volatility and can provide no assurance that the negative historical correlation between the AUM of ETFS and the AUM of our two largest ETFs will be experienced in the future.

As a result of the ETFS Acquisition, our client base has been further diversified with increased exposure to European domiciled investors, commodity focused investors and new-to-firm clients. In addition, our average global ETP advisory fee has declined 0.02, from 0.50% to 0.48% at September 30, 2017 and September 30, 2018, respectively, due to the ETFS Acquisition and change in product mix.

### ***Market Environment***

#### *Overview*

Performance of the U.S. markets remained robust in the third quarter as the strength of the economy continued to overshadow uncertainty arising from U.S. trade policies toward China and other trading partners. The Japan markets also performed favorably as a weakening of the Japanese yen improved market sentiment, while performance of the European markets was relatively modest. The continued strengthening of the U.S. dollar and rising interest rates weighed on emerging markets and the price of gold.

The S&P 500 rose 7.7%, MSCI EAFE (local currency) rose 2.4%, MSCI Emerging Markets Index (U.S. dollar) declined 0.1% and gold prices declined 5.1% during the third quarter. In addition, the European and Japan equity markets both appreciated with the MSCI EMU Index rising 0.5% and MSCI Japan Index rising 6.5%, respectively, in local currency terms for the quarter. Also, the U.S. dollar strengthened 2.8% versus the Yen and 0.7% versus the Euro during the third quarter.



**Table of Contents***U.S. listed ETF Industry Flows*

Our U.S. listed ETFs make up a majority of our global AUM. As the charts below reflect, industry flows for the third quarter of 2018 were \$89.2 billion. U.S. equity and fixed income gathered the majority of those flows.

Source: Bloomberg, Investment Company Institute, WisdomTree

*European listed ETF Industry Flows*

As the chart below reflects, European listed ETF net flows for the third quarter were \$13.2 billion. Equity and fixed income gathered the majority of those flows.

Source: Bloomberg, WisdomTree

***Business Segments***

We operate as an ETP sponsor and asset manager providing investment advisory services globally. These activities are reported in our U.S. Business and International Business segments. The International Business segment includes our European business (which now includes ETFs) and our Canadian business.

*Restructuring of Distribution Strategy in Japan*

Our U.S. Business has included our Japanese sales office, WisdomTree Japan Inc., or WTJ, which engaged in selling our U.S. listed ETFs to Japanese institutions. In July 2018, the Company determined to restructure its distribution strategy in Japan and has expanded its existing relationship with a third party to manage distribution of WisdomTree ETFs in Japan. As a result, the Company will close WTJ. During the three and nine months ended September 30, 2018 and 2017, WTJ reported operating losses of the following:

|                        | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|------------------------|---------------------------|-------------|--------------------------|-------------|
|                        | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|                        | <b>2018</b>               | <b>2017</b> | <b>2018</b>              | <b>2017</b> |
| Operating losses - WTJ | \$ 1,342                  | \$ 1,085    | \$ 3,698                 | \$ 3,447    |

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**Our Operating and Financial Results**

***U.S. Business Segment***

Our U.S. listed ETFs AUM increased from \$41.3 billion at June 30, 2018 to \$41.6 billion at September 30, 2018 primarily due to market appreciation, largely offset by net outflows from our two largest ETFs, DXJ and HEDJ.

***International Business Segment***

In the second quarter of 2018, we acquired \$17.6 billion of AUM in connection with the ETFS Acquisition. Our international ETFs AUM decreased from \$18.6 billion at June 30, 2018 to \$17.6 billion at September 30, 2018 due to market depreciation and net outflows.

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***Consolidated Operating Results***

The following table sets forth our revenues and net income for the most recent five quarters. Prior period amounts previously disclosed have been reclassified to conform with our current presentation. These reclassifications had no effect on previously reported net income.

*Revenues* Total operating revenues increased 25.7% from the three months ended September 30, 2017 to \$72.6 million due to an increase in our average global AUM. Our average global AUM increased primarily due to the \$17.6 billion of AUM acquired in connection with the ETFS Acquisition as well as net inflows into certain of our ETFs. These increases were partly offset by outflows from our two largest U.S. listed ETFs.

*Expenses* Total operating expenses increased 19.7% from the three months ended September 30, 2017 to \$50.9 million primarily due to the ETFS Acquisition.

*Other Income/(Expenses)* Other income/(expense) includes interest income and interest expense, gains/(losses) on revaluation of deferred consideration and other gains and losses. These items are further described below.

*Net income* Net income increased 176.4% from the three months ended September 30, 2017 to \$22.0 million.

**Table of Contents****Key Operating Statistics**

The following table presents key operating statistics that serve as indicators for the performance of our business:

|  | Three Months Ended    |                  |                       | Nine Months Ended     |                       |
|--|-----------------------|------------------|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2018 | June 30,<br>2018 | September 30,<br>2017 | September 30,<br>2018 | September 30,<br>2017 |
| <b>U.S. LISTED ETFs (in millions)</b>          |                       |                  |                       |                       |                       |
| Beginning of period assets                     | \$ 41,340             | \$ 42,886        | \$ 43,183             | \$ 46,827             | \$ 40,164             |
| Inflows/(outflows)                             | (878)                 | (1,231)          | (619)                 | (4,276)               | (72)                  |
| Market appreciation/(depreciation)             | 1,094                 | (315)            | 1,834                 | (995)                 | 4,306                 |
| End of period assets                           | \$ 41,556             | \$ 41,340        | \$ 44,398             | \$ 41,556             | \$ 44,398             |
| Average assets during the period               | \$ 41,555             | \$ 43,464        | \$ 43,523             | \$ 43,546             | \$ 42,592             |
| Average ETF advisory fee during the period     | 0.48%                 | 0.49%            | 0.50%                 | 0.49%                 | 0.50%                 |
| Revenue days                                   | 92                    | 91               | 92                    | 273                   | 273                   |
| Number of ETFs end of the period               | 84                    | 81               | 87                    | 84                    | 87                    |
| <b>INTERNATIONAL LISTED ETPs (in millions)</b> |                       |                  |                       |                       |                       |
| Beginning of period assets                     | \$ 18,629             | \$ 2,075         | \$ 1,547              | \$ 2,110              | \$ 1,093              |
| Assets acquired                                |                       | 17,641           |                       | 17,641                |                       |
| Inflows/(outflows)                             | (374)                 | (25)             | 333                   | (446)                 | 823                   |
| Market appreciation/(depreciation)             | (668)                 | (1,062)          | 91                    | (1,718)               | 55                    |
| End of period assets                           | \$ 17,587             | \$ 18,629        | \$ 1,971              | \$ 17,587             | \$ 1,971              |
| Average assets during the period               | \$ 17,905             | \$ 17,837        | \$ 1,693              | \$ 12,616             | \$ 1,473              |
| Average ETP advisory fee during the period     | 0.48%                 | 0.47%            | 0.60%                 | 0.48%                 | 0.60%                 |
| Revenue days                                   | 92                    | 91               | 92                    | 273                   | 273                   |
| Number of ETPs end of period                   | 451                   | 445              | 96                    | 451                   | 96                    |
| <b>PRODUCT CATEGORIES (in millions)</b>        |                       |                  |                       |                       |                       |
| <b>International Developed Market Equity</b>   |                       |                  |                       |                       |                       |
| Beginning of period assets                     | \$ 20,331             | \$ 22,432        | \$ 24,647             | \$ 25,950             | \$ 23,105             |
| Inflows/(outflows)                             | (1,289)               | (1,502)          | (550)                 | (5,490)               | (681)                 |
| Market appreciation/(depreciation)             | 660                   | (599)            | 1,177                 | (758)                 | 2,850                 |
| End of period assets                           | \$ 19,702             | \$ 20,331        | \$ 25,274             | \$ 19,702             | \$ 25,274             |
| Average assets during the period               | \$ 19,907             | \$ 22,455        | \$ 24,704             | \$ 22,268             | \$ 24,421             |
| <b>Commodity &amp; Currency</b>                |                       |                  |                       |                       |                       |
| Beginning of period assets                     | \$ 16,167             | \$ 416           | \$ 464                | \$ 445                | \$ 564                |

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|                                    |           |           |           |           |           |
|------------------------------------|-----------|-----------|-----------|-----------|-----------|
| Assets acquired                    |           | 16,778    |           | 16,778    |           |
| Inflows/(outflows)                 | (434)     | (99)      | (1)       | (561)     | (87)      |
| Market appreciation/(depreciation) | (682)     | (928)     | 2         | (1,611)   | (12)      |
| End of period assets               | \$ 15,051 | \$ 16,167 | \$ 465    | \$ 15,051 | \$ 465    |
| Average assets during the period   | \$ 15,384 | \$ 15,316 | \$ 468    | \$ 10,375 | \$ 500    |
| <b>U.S. Equity</b>                 |           |           |           |           |           |
| Beginning of period assets         | \$ 14,301 | \$ 13,359 | \$ 12,888 | \$ 14,234 | \$ 12,111 |
| Inflows/(outflows)                 | 347       | 114       | (227)     | 508       | 240       |
| Market appreciation/(depreciation) | 539       | 828       | 500       | 445       | 810       |
| End of period assets               | \$ 15,187 | \$ 14,301 | \$ 13,161 | \$ 15,187 | \$ 13,161 |
| Average assets during the period   | \$ 14,950 | \$ 14,021 | \$ 12,882 | \$ 14,364 | \$ 12,618 |
| <b>Emerging Market Equity</b>      |           |           |           |           |           |
| Beginning of period assets         | \$ 5,643  | \$ 6,289  | \$ 4,828  | \$ 5,887  | \$ 3,917  |
| Inflows/(outflows)                 | (216)     | (120)     | 241       | 90        | 588       |
| Market appreciation/(depreciation) | (81)      | (526)     | 205       | (631)     | 769       |
| End of period assets               | \$ 5,346  | \$ 5,643  | \$ 5,274  | \$ 5,346  | \$ 5,274  |
| Average assets during the period   | \$ 5,548  | \$ 6,116  | \$ 5,141  | \$ 5,974  | \$ 4,713  |

**Table of Contents****Leveraged & Inverse**

|                                    |          |          |        |          |        |
|------------------------------------|----------|----------|--------|----------|--------|
| Beginning of period assets         | \$ 1,531 | \$ 872   | \$ 809 | \$ 930   | \$ 624 |
| Assets acquired                    |          | 863      |        | 863      |        |
| Inflows/(outflows)                 | (61)     | (71)     | 130    | (265)    | 393    |
| Market appreciation/(depreciation) | (25)     | (133)    | 37     | (83)     | (41)   |
| End of period assets               | \$ 1,445 | \$ 1,531 | \$ 976 | \$ 1,445 | \$ 976 |
| Average assets during the period   | \$ 1,489 | \$ 1,592 | \$ 867 | \$ 1,319 | \$ 768 |

**Fixed Income**

|                                    |          |          |        |          |        |
|------------------------------------|----------|----------|--------|----------|--------|
| Beginning of period assets         | \$ 1,411 | \$ 1,101 | \$ 620 | \$ 862   | \$ 504 |
| Inflows/(outflows)                 | 329      | 349      | 86     | 930      | 182    |
| Market appreciation/(depreciation) | (2)      | (39)     | 16     | (54)     | 36     |
| End of period assets               | \$ 1,738 | \$ 1,411 | \$ 722 | \$ 1,738 | \$ 722 |
| Average assets during the period   | \$ 1,554 | \$ 1,230 | \$ 659 | \$ 1,268 | \$ 601 |

**Alternatives**

|                                    |        |        |        |        |        |
|------------------------------------|--------|--------|--------|--------|--------|
| Beginning of period assets         | \$ 578 | \$ 492 | \$ 404 | \$ 582 | \$ 287 |
| Inflows/(outflows)                 | 72     | 66     | 40     | 68     | 158    |
| Market appreciation/(depreciation) | 24     | 20     | 4      | 24     | 3      |
| End of period assets               | \$ 674 | \$ 578 | \$ 448 | \$ 674 | \$ 448 |
| Average assets during the period   | \$ 628 | \$ 564 | \$ 427 | \$ 579 | \$ 351 |

**Closed ETPs**

|                                    |      |      |       |       |        |
|------------------------------------|------|------|-------|-------|--------|
| Beginning of period assets         | \$ 7 | \$   | \$ 70 | \$ 47 | \$ 145 |
| Inflows/(outflows)                 |      | 7    | (5)   | (2)   | (42)   |
| Market appreciation/(depreciation) | (7)  |      | (16)  | (45)  | (54)   |
| End of period assets               | \$   | \$ 7 | \$ 49 | \$    | \$ 49  |
| Average assets during the period   | \$   | \$ 7 | \$ 68 | \$ 15 | \$ 93  |

**Headcount: U.S. Business Segment** 151 155 165 151 165

**Headcount: International Business Segment** 76 76 43 76 43

Note: Previously issued statistics may be restated due to trade adjustments

Source: WisdomTree

**Table of Contents****Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017*****Selected Operating and Financial Information***

|  | <b>Three Months<br/>Ended<br/>September 30,</b> |             |               |                           |
|--|---|-------------|---------------|---------------------------|
|  | <b>2018</b>                                     | <b>2017</b> | <b>Change</b> | <b>Percent<br/>Change</b> |
| <b>Global AUM (in millions)</b>          |   |             |               |                           |
| Average global AUM                       | \$ 59,460                                       | \$ 45,216   | \$ 14,244     | 31.5%                     |
| <b>Operating Revenues (in thousands)</b> |   |             |               |                           |
| Advisory fees                            | \$ 71,679                                       | \$ 57,293   | \$ 14,386     | 25.1%                     |
| Other income                             | 891   | 421         | 470           | 111.6%                    |
| Total revenues                           | \$ 72,570                                       | \$ 57,714   | \$ 14,856     | 25.7%                     |

***Average Global AUM***

Our average global AUM increased 31.5% from \$45.2 billion in the three months ended September 30, 2017 to \$59.5 billion in the comparable period in 2018 primarily due to the \$17.6 billion of AUM acquired in connection with the ETFs Acquisition as well as net inflows into certain of our ETFs. These increases were partly offset by outflows from our two largest U.S. listed ETFs.

***Operating Revenues******Advisory fees***

Advisory fees increased 25.1% from \$57.3 million in the three months ended September 30, 2017 to \$71.7 million in the comparable period in 2018 primarily due to an increase in our average global AUM. Our average global ETP advisory fee has declined 0.02, from 0.50% to 0.48% at September 30, 2017 and September 30, 2018, respectively, due to the ETFs Acquisition and change in product mix.

***Other income***

Other income increased 111.6% from \$0.4 million in the three months ended September 30, 2017 to \$0.9 million in the comparable period in 2018 primarily due to creation/redemption fees earned from the ETFs exchange-traded products.

***Operating Expenses***

| <i>(in thousands)</i> | <b>Three Months Ended<br/>September 30,</b> |             |               |                           |
|-----------------------|---|-------------|---------------|---------------------------|
|                       | <b>2018</b>                                 | <b>2017</b> | <b>Change</b> | <b>Percent<br/>Change</b> |

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|   |                  |                  |                 |              |
|---|------------------|------------------|-----------------|--------------|
| Compensation and benefits               | \$ 17,544        | \$ 19,492        | \$ (1,948)      | (10.0%)      |
| Fund management and administration      | 15,292           | 10,862           | 4,430           | 40.8%        |
| Marketing and advertising               | 3,239            | 3,314            | (75)            | (2.3%)       |
| Sales and business development          | 3,801            | 3,617            | 184             | 5.1%         |
| Contractual gold payments               | 2,880            |                  | 2,880           | n/a          |
| Professional and consulting fees        | 1,934            | 1,035            | 899             | 86.9%        |
| Occupancy, communications and equipment | 1,722            | 1,378            | 344             | 25.0%        |
| Depreciation and amortization           | 306              | 353              | (47)            | (13.3%)      |
| Third-party distribution fees           | 1,407            | 710              | 697             | 98.2%        |
| Acquisition-related costs               | 456              |                  | 456             | n/a          |
| Other                                   | 2,281            | 1,729            | 552             | 31.9%        |
| <b>Total expenses</b>                   | <b>\$ 50,862</b> | <b>\$ 42,490</b> | <b>\$ 8,372</b> | <b>19.7%</b> |

| <b>As a Percent of Revenues:</b>   | <b>Three Months Ended</b> |             |
|------------------------------------|---------------------------|-------------|
|                                    | <b>September 30,</b>      |             |
|                                    | <b>2018</b>               | <b>2017</b> |
| Compensation and benefits          | 24.2%                     | 33.8%       |
| Fund management and administration | 21.1%                     | 18.8%       |
| Marketing and advertising          | 4.4%                      | 5.7%        |
| Sales and business development     | 5.2%                      | 6.3%        |
| Contractual gold payments          | 4.0%                      | n/a         |



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| <b>As a Percent of Revenues:</b>        | <b>Three Months Ended</b> |              |
|---|---------------------------|--------------|
|   | <b>September 30,</b>      |              |
|   | <b>2018</b>               | <b>2017</b>  |
| Professional and consulting fees        | 2.7%                      | 1.8%         |
| Occupancy, communications and equipment | 2.4%                      | 2.4%         |
| Depreciation and amortization           | 0.4%                      | 0.6%         |
| Third-party distribution fees           | 2.0%                      | 1.2%         |
| Acquisition-related costs               | 0.6%                      | n/a          |
| Other                                   | 3.1%                      | 3.0%         |
| <b>Total expenses</b>                   | <b>70.1%</b>              | <b>73.6%</b> |

*Compensation and benefits*

Compensation and benefits expense decreased 10.0% from \$19.5 million in the three months ended September 30, 2017 to \$17.5 million in the comparable period in 2018 due to lower incentive compensation within our U.S. Business segment, partly offset by higher compensation of our International Business segment due to the ETFs Acquisition. Headcount of our U.S. Business segment was 151 and 165 and our International Business segment was 76 and 43 at September 30, 2018 and 2017, respectively.

*Fund management and administration*

Fund management and administration expense increased 40.8% from \$10.9 million in the three months ended September 30, 2017 to \$15.3 million in the comparable period in 2018 due to higher average AUM of our International Business segment primarily associated with the ETFs Acquisition. We had 84 and 87 U.S. listed ETFs and 451 and 96 International listed ETPs at September 30, 2018 and 2017, respectively.

*Marketing and advertising*

Marketing and advertising expense was essentially unchanged from the three months ended September 30, 2017.

*Sales and business development*

Sales and business development expense was essentially unchanged from the three months ended September 30, 2017.

*Contractual gold payments*

Contractual gold payments expense was \$2.9 million during the three months ended September 30, 2018, which was associated with the payment of 2,375 ounces of gold at an average daily spot price of \$1,213 per ounce. See Note 11 to our Consolidated Financial Statements for further information.

*Professional and consulting fees*

Professional and consulting fees increased 86.9% from \$1.0 million in the three months ended September 30, 2017 to \$1.9 million in the comparable period in 2018 due to higher professional and corporate consulting-related expenses in our U.S. Business segment.

*Occupancy, communications and equipment*

Occupancy, communications and equipment expense increased 25.0% from \$1.4 million in the three months ended September 30, 2017 to \$1.7 million in the comparable period in 2018 primarily due to office space associated with the ETFs Acquisition, as well as higher real estate taxes.

*Depreciation and amortization*

Depreciation and amortization expense of \$0.3 million was essentially unchanged from the three months ended September 30, 2017.

*Third-party distribution fees*

Third-party distribution fees increased 98.2% from \$0.7 million in the three months ended September 30, 2017 to \$1.4 million in the comparable period in 2018 primarily due to a new distribution relationship announced in the fourth quarter of 2017.

**Table of Contents***Acquisition-related costs*

During the three months ended September 30, 2018, we incurred acquisition-related costs of \$0.5 million which were primarily associated with the integration of ETFs.

*Other*

Other expenses increased 31.9% from \$1.7 million in the three months ended September 30, 2017 to \$2.3 million in the comparable period in 2018 primarily due to higher International Business segment office expenses associated with an increase in headcount from the ETFs Acquisition.

*Other Income/(Expenses)*

| <i>(in thousands)</i>                         | Three Months Ended    |               |                 | Percent<br>Change |
|---|-----------------------|---------------|-----------------|-------------------|
|   | September 30,<br>2018 | 2017          | Change          |                   |
| Interest expense                              | \$ (2,747)            | \$            | \$ (2,747)      | n/a               |
| Gain on revaluation of deferred consideration | 7,732                 |               | 7,732           | n/a               |
| Interest income                               | 719                   | 772           | (53)            | (6.9%)            |
| Other gains and losses, net                   | 118                   | (500)         | 618             | n/a               |
| <b>Total other income/(expenses)</b>          | <b>\$ 5,822</b>       | <b>\$ 272</b> | <b>\$ 5,550</b> | <b>2,040.4%</b>   |

| <b>As a Percent of Revenues:</b>              | Three Months Ended    |             |
|---|-----------------------|-------------|
|   | September 30,<br>2018 | 2017        |
| Interest expense                              | (3.8%)                | n/a         |
| Gain on revaluation of deferred consideration | 10.7%                 | n/a         |
| Interest income                               | 1.0%                  | 1.3%        |
| Other gains and losses, net                   | 0.1%                  | (0.9%)      |
| <b>Total other income/(expenses)</b>          | <b>8.0%</b>           | <b>0.4%</b> |

*Interest expense*

Interest expense for the three months ended September 30, 2018 of \$2.7 million was incurred principally in connection with the \$200.0 million term loan (the Term Loan) to facilitate the ETFs Acquisition. Our effective interest rate during the period was 5.1% and includes our cost of borrowing and amortization of issuance costs.

*Gain on revaluation of deferred consideration*

We recognized a gain on revaluation of deferred consideration of \$7.7 million during the three months ended September 30, 2018 as the price of gold has declined when compared to June 30, 2018, the date in which the deferred consideration was last measured. The magnitude of the gain recognized is highly correlated to the magnitude of the

change in the price of gold. See Note 11 to our Consolidated Financial Statements for further information.

*Interest income*

Interest income of \$0.7 million was essentially unchanged from the three months ended September 30, 2017.

*Other gains and losses, net*

Other net gains of \$0.1 million recognized in the third quarter of 2018 arose from the recognition of an insurance claim reimbursement, partly offset by miscellaneous foreign exchange losses. We reported other net losses of \$0.5 million in the third quarter of 2017 which were primarily associated with our short-term investment grade bond portfolio and miscellaneous foreign exchange losses.

*Income taxes*

Our estimated effective income tax rate for the three months ended September 30, 2018 of 19.9% resulted in income tax expense of \$5.5 million. Our tax rate differs from the federal statutory tax rate of 21% primarily due to the non-taxable gain on revaluation of deferred consideration and a lower tax rate on foreign earnings, partly offset by a valuation allowance on foreign net operating losses and state and local income taxes.

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Our estimated effective income tax rate for the three months ended September 30, 2017 of 48.5% resulted in income tax expense of \$7.5 million. The Company's tax rate differs from the federal statutory tax rate of 35% primarily due to a valuation allowance on foreign net operating losses and state and local income taxes.

**Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017****Selected Operating and Financial Information**

|  | <b>Nine Months Ended</b> |             |               |                       |
|--|--------------------------|-------------|---------------|-----------------------|
|  | <b>September 30,</b>     |             |               |                       |
|  | <b>2018</b>              | <b>2017</b> | <b>Change</b> | <b>Percent Change</b> |
| <b>Global AUM (in millions)</b>          |                          |             |               |                       |
| Average global AUM                       | \$ 56,162                | \$ 44,065   | \$ 12,097     | 27.5%                 |
| <b>Operating Revenues (in thousands)</b> |                          |             |               |                       |
| Advisory fees                            | \$ 203,913               | \$ 166,177  | \$ 37,736     | 22.7%                 |
| Other income                             | 2,336                    | 1,145       | 1,191         | 104.0%                |
| Total revenues                           | \$ 206,249               | \$ 167,322  | \$ 38,927     | 23.3%                 |

**Average Global AUM**

Our average global AUM increased 27.5% from \$44.1 billion in the nine months ended September 30, 2017 to \$56.2 billion in the comparable period in 2018 primarily due to the \$17.6 billion of AUM acquired in connection with the ETFS Acquisition as well as net inflows into certain of our ETFs. These increases were partly offset by outflows from our two largest U.S. listed ETFs and market depreciation.

**Operating Revenues***Advisory fees*

Advisory fees increased 22.7% from \$166.2 million in the nine months ended September 30, 2017 to \$203.9 million in the comparable period in 2018 primarily due to an increase in our average global AUM.

*Other income*

Other income increased 104.0% from \$1.1 million in the nine months ended September 30, 2017 to \$2.3 million in the comparable period in 2018 primarily due to creation/redemption fees earned from the ETFS exchange-traded products.

**Operating Expenses**

|  | <b>Nine Months Ended</b> |               |                       |
|--|--------------------------|---------------|-----------------------|
|  | <b>September 30,</b>     |               |                       |
|  |                          | <b>Change</b> | <b>Percent Change</b> |

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| <i>(in thousands)</i>                   | <b>2018</b>       | <b>2017</b>       |                  |              |
|---|-------------------|-------------------|------------------|--------------|
| Compensation and benefits               | \$ 55,677         | \$ 55,787         | \$ (110)         | (0.2%)       |
| Fund management and administration      | 40,825            | 30,574            | 10,251           | 33.5%        |
| Marketing and advertising               | 10,212            | 10,676            | (464)            | (4.3%)       |
| Sales and business development          | 12,117            | 9,968             | 2,149            | 21.6%        |
| Contractual gold payments               | 5,595             |                   | 5,595            | n/a          |
| Professional and consulting fees        | 5,130             | 3,814             | 1,316            | 34.5%        |
| Occupancy, communications and equipment | 4,659             | 4,102             | 557              | 13.6%        |
| Depreciation and amortization           | 998               | 1,042             | (44)             | (4.2%)       |
| Third-party distribution fees           | 4,798             | 2,312             | 2,486            | 107.5%       |
| Acquisition-related costs               | 10,446            |                   | 10,446           | n/a          |
| Other                                   | 6,332             | 5,195             | 1,137            | 21.9%        |
| <b>Total expenses</b>                   | <b>\$ 156,789</b> | <b>\$ 123,470</b> | <b>\$ 33,319</b> | <b>27.0%</b> |

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| <b>As a Percent of Revenues:</b>        | <b>Nine Months Ended</b> |                           |
|---|--------------------------|---------------------------|
|   | <b>2018</b>              | <b>September 30, 2017</b> |
| Compensation and benefits               | 27.0%                    | 33.3%                     |
| Fund management and administration      | 19.8%                    | 18.3%                     |
| Marketing and advertising               | 5.0%                     | 6.4%                      |
| Sales and business development          | 5.9%                     | 6.0%                      |
| Contractual gold payments               | 2.7%                     | n/a                       |
| Professional and consulting fees        | 2.4%                     | 2.3%                      |
| Occupancy, communications and equipment | 2.3%                     | 2.4%                      |
| Depreciation and amortization           | 0.4%                     | 0.6%                      |
| Third-party distribution fees           | 2.3%                     | 1.4%                      |
| Acquisition-related costs               | 5.1%                     | n/a                       |
| Other                                   | 3.1%                     | 3.1%                      |
| <b>Total expenses</b>                   | <b>76.0%</b>             | <b>73.8%</b>              |

*Compensation and benefits*

Compensation and benefits expense of \$55.7 million was essentially unchanged from the nine months ended September 30, 2017 as compensation expense associated with the ETFS Acquisition was offset by lower incentive compensation within our U.S. Business segment.

*Fund management and administration*

Fund management and administration expense increased 33.5% from \$30.6 million in the nine months ended September 30, 2017 to \$40.8 million in the comparable period in 2018 due to higher average AUM of our International Business segment primarily associated with the ETFS Acquisition.

*Marketing and advertising*

Marketing and advertising expense decreased 4.3% from \$10.7 million in the nine months ended September 30, 2017 to \$10.2 million in the comparable period in 2018 primarily due to lower levels of advertising related activities of our U.S. Business segment, partly offset by higher expenses within our International Business segment.

*Sales and business development*

Sales and business development expense increased 21.6% from \$10.0 million in the nine months ended September 30, 2017 to \$12.1 million in the comparable period in 2018 primarily due to higher spending on sales related activities globally.

*Contractual gold payments*

Contractual gold payments expense was \$5.6 million for the nine months ended September 30, 2018 and represents the payment of 4,460 ounces of gold at an average daily spot price of \$1,255 per ounce. See Note 11 to our Consolidated Financial Statements for further information.

*Professional and consulting fees*

Professional and consulting fees increased 34.5% from \$3.8 million in the nine months ended September 30, 2017 to \$5.1 million in the comparable period in 2018 due to higher professional and corporate consulting-related expenses globally.

*Occupancy, communications and equipment*

Occupancy, communications and equipment expense increased 13.6% from \$4.1 million in the nine months ended September 30, 2017 to \$4.7 million in the comparable period in 2018 primarily due to office space associated with the ETFS Acquisition.

*Depreciation and amortization*

Depreciation and amortization expense of \$1.0 million was essentially unchanged from the nine months ended September 30, 2017.



**Table of Contents***Third-party distribution fees*

Third-party distribution fees increased 107.5% from \$2.3 million in the nine months ended September 30, 2017 to \$4.8 million in the comparable period in 2018 primarily due to a new distribution relationship announced in the fourth quarter of 2017 and higher fees paid to our third-party marketing agent in Latin America.

*Acquisition-related costs*

During the nine months ended September 30, 2018, we incurred acquisition-related costs associated with the ETFS Acquisition of \$10.4 million which included professional advisor fees, severance and other compensation costs, a write-off of our office lease and other integration costs.

*Other*

Other expenses increased 21.9% from \$5.2 million in the nine months ended September 30, 2017 to \$6.3 million in the comparable period in 2018 primarily due to higher International Business segment office expenses associated with an increase in headcount from the ETFS Acquisition.

***Other Income/(Expenses)***

| <i>(in thousands)</i>                         | <b>Nine Months Ended</b> |             |               | <b>Percent Change</b> |
|---|--------------------------|-------------|---------------|-----------------------|
|   | <b>2018</b>              | <b>2017</b> | <b>Change</b> |                       |
| Interest expense                              | \$ (5,103)               | \$          | \$ (5,103)    | n/a                   |
| Gain on revaluation of deferred consideration | 17,630                   |             | 17,630        | n/a                   |
| Interest income                               | 2,293                    | 1,999       | 294           | 14.7%                 |
| Settlement gain                               |                          | 6,909       | (6,909)       | n/a                   |
| Other gains and losses, net                   | (644)                    | (217)       | (427)         | 196.8%                |
| Total other income/(expenses)                 | \$ 14,176                | \$ 8,691    | \$ 5,485      | 63.1%                 |

| <b>As a Percent of Revenues:</b>              | <b>Nine Months Ended</b> |             |
|---|--------------------------|-------------|
|   | <b>2018</b>              | <b>2017</b> |
| Interest expense                              | (2.5%)                   | n/a         |
| Gain on revaluation of deferred consideration | 8.5%                     | n/a         |
| Interest income                               | 1.1%                     | 1.2%        |
| Settlement gain                               | n/a                      | 4.1%        |
| Other gains and losses, net                   | (0.3%)                   | (0.1%)      |
| Total other income/(expenses)                 | 6.8%                     | 5.2%        |

*Interest expense*

Interest expense was \$5.1 million for the nine months ended September 30, 2018. Our effective interest rate during the period was 5.0% and includes our cost of borrowing and amortization of issuance costs.

*Gain on revaluation of deferred consideration*

We recognized a gain on revaluation of deferred consideration of \$17.6 million for the nine months ended September 30, 2018. A gain was recognized during the nine months ended September 30, 2018 as the price of gold has declined when compared to April 11, 2018, the date in which the deferred consideration was initially measured. The magnitude of the gain recognized is highly correlated to the magnitude of the change in the price of gold. See Note 11 to our Consolidated Financial Statements for further information.

*Interest income*

Interest income increased 14.7% from \$2.0 million for the nine months ended September 30, 2017 to \$2.3 million for the nine months ended September 30, 2018, primarily due to paid-in-kind interest on a note receivable from AdvisorEngine Inc., partly offset by lower interest income on our short-term investment grade bond portfolio which has matured.

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*Settlement gain*

A settlement gain of \$6.9 million was recorded during the nine months ended September 30, 2017 representing the fair value of the preferred stock of Thesys Group, Inc. ( Thesys ) that the Company received in connection with the resolution of a dispute regarding its ownership stake in Thesys, which occurred in June 2017.

*Other gains and losses, net*

Other net losses for the nine months ended September 30, 2018 was \$0.6 million and arose from our short-term investment grade bond portfolio, the sale of gold earned on advisory fees paid by physically-backed gold ETPs and miscellaneous foreign exchange losses. These losses were partly offset by an insurance claim reimbursement.

Other net losses for the nine months ended September 30, 2017 was \$0.2 million which included a reimbursement of fund-related costs, partly offset by realized losses on our short-term investment grade bond portfolio and miscellaneous foreign exchange losses.

***Income taxes***

Our estimated effective income tax rate for the nine months ended September 30, 2018 of 24.3% resulted in income tax expense of \$15.4 million. Our tax rate differs from the federal statutory tax rate of 21% primarily due to a valuation allowance on foreign net operating losses, state and local income taxes and non-deductible acquisition-related costs, partly offset by the non-taxable gain on revaluation of deferred consideration and a lower tax rate on foreign earnings.

Our estimated effective income tax rate for the nine months ended September 30, 2017 of 48.7% resulted in income tax expense of \$25.6 million. Our tax rate differs from the federal statutory tax rate of 35% primarily due to a valuation allowance on foreign net operating losses, tax shortfalls associated with the vesting of stock-based compensation awards and state and local income taxes.

**Table of Contents****Segment Results**

The table below presents the results of our U.S. Business and International Business reportable segments.

|  | <b>Three Months Ended<br/>September 30,</b> |                    | <b>Nine Months Ended<br/>September 30,</b> |                     |
|--|---|--------------------|--|---------------------|
|  | <b>2018</b>                                 | <b>2017</b>        | <b>2018</b>                                | <b>2017</b>         |
| <b><i>U.S. Business Segment</i></b>                      |   |                    |  |                     |
| <b><i>Operating revenues</i></b>                         |   |                    |  |                     |
| Advisory fees  | \$ 50,216                                   | \$ 54,749          | \$ 158,665                                 | \$ 159,417          |
| Other income   | 173   | 140                | 482  | 371                 |
| <b>Total operating revenues</b>                          | <b>\$ 50,389</b>                            | <b>\$ 54,889</b>   | <b>\$ 159,147</b>                          | <b>\$ 159,788</b>   |
| <b>Total operating expenses</b>                          | <b>\$ (33,774)</b>                          | <b>\$ (36,846)</b> | <b>\$ (115,442)</b>                        | <b>\$ (107,023)</b> |
| <b><i>Other income/(expenses)</i></b>                    |   |                    |  |                     |
| Interest expense   | \$ (196)                                    | \$                 | \$ (369)                                   | \$                  |
| Interest income  | 719   | 772                | 2,293                                      | 1,999               |
| Settlement gain  |   |                    |  | 6,909               |
| Other gains and losses, net                              | 318   | (322)              | 26   | 39                  |
| <b>Total other income</b>                                | <b>\$ 841</b>                               | <b>\$ 450</b>      | <b>\$ 1,950</b>                            | <b>\$ 8,947</b>     |
| <b>Total income before taxes (U.S. Business Segment)</b> | <b>\$ 17,456</b>                            | <b>\$ 18,493</b>   | <b>\$ 45,655</b>                           | <b>\$ 61,712</b>    |
| Average assets during the period (in millions)           | \$ 41,555                                   | \$ 43,523          | \$ 43,546                                  | \$ 42,592           |
| Average ETF advisory fee during the period               | 0.48%                                       | 0.50%              | 0.49%                                      | 0.50%               |
| <b><i>International Business Segment</i></b>             |   |                    |  |                     |
| <b><i>Operating revenues</i></b>                         |   |                    |  |                     |
| Advisory fees  | \$ 21,463                                   | \$ 2,544           | \$ 45,248                                  | \$ 6,760            |
| Other income   | 718   | 281                | 1,854                                      | 770                 |
| <b>Total operating revenues</b>                          | <b>\$ 22,181</b>                            | <b>\$ 2,825</b>    | <b>\$ 47,102</b>                           | <b>\$ 7,534</b>     |
| <b>Total operating expenses</b>                          | <b>\$ (17,088)</b>                          | <b>\$ (5,644)</b>  | <b>\$ (41,347)</b>                         | <b>\$ (16,447)</b>  |
| <b><i>Other income/(expenses)</i></b>                    |   |                    |  |                     |
| Interest expense   | \$ (2,551)                                  | \$                 | \$ (4,734)                                 | \$                  |
| Interest income  |   |                    |  |                     |
| Gain on revaluation of deferred consideration            | 7,732                                       |                    | 17,630                                     |                     |
| Other gains and losses, net                              | (200)                                       | (178)              | (670)                                      | (256)               |
| <b>Total other income/(expenses)</b>                     | <b>\$ 4,981</b>                             | <b>\$ (178)</b>    | <b>\$ 12,226</b>                           | <b>\$ (256)</b>     |

|  |                  |                  |                  |                  |
|--|------------------|------------------|------------------|------------------|
| <b>Total income/(loss) before taxes<br/>(International Business Segment)</b> | \$ 10,074        | \$ (2,997)       | \$ 17,981        | \$ (9,169)       |
| Average assets during the period (in millions)                               | \$ 17,905        | \$ 1,693         | \$ 12,616        | \$ 1,473         |
| Average ETP advisory fee during the period                                   | 0.48%            | 0.60%            | 0.48%            | 0.60%            |
| <b>Income/(loss) before taxes</b>  |                  |                  |                  |                  |
| U.S. Business segment  | \$ 17,456        | \$ 18,493        | \$ 45,655        | \$ 61,712        |
| International Business segment   | 10,074           | (2,997)          | 17,981           | (9,169)          |
| <b>Total income before taxes</b>   | <b>\$ 27,530</b> | <b>\$ 15,496</b> | <b>\$ 63,636</b> | <b>\$ 52,543</b> |

## **Table of Contents**

### **Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017**

#### *U.S. Business segment*

Operating revenues of the U.S. Business segment declined 8.2% from \$54.9 million in the three months ended September 30, 2017 to \$50.4 million in the comparable period in 2018. The decrease was due to lower average AUM and lower average U.S. listed advisory fees due to a change in product mix. Our average U.S. listed ETF advisory fee was 0.48% and 0.50% during the three months ended September 30, 2018 and September 30, 2017, respectively.

Operating expenses of the U.S. Business segment declined 8.3% from \$36.8 million in the three months ended September 30, 2017 to \$33.8 million in the comparable period in 2018 primarily due to lower incentive compensation and lower sales and business development. These decreases were partly offset by higher professional fees and higher third-party distribution fees. Headcount of our U.S. Business segment was 165 and 151 at September 30, 2017 and 2018, respectively.

Other income, net of the U.S. Business segment increased by 86.9%, from \$0.5 million in the three months ended September 30, 2017 to \$0.8 million in the comparable period in 2018, largely due to an insurance claim reimbursement recognized in the current period coupled with realized losses on our short-term investment grade bond portfolio recognized in the prior year.

#### *International Business segment*

Operating revenues of the International Business segment increased \$19.4 million, from \$2.8 million in the three months ended September 30, 2017 to \$22.2 million in the comparable period in 2018. This increase was attributable to higher average AUM primarily due to the \$17.6 billion of AUM acquired in connection with the ETFS Acquisition.

Operating expenses of the International Business segment increased 202.8% from \$5.6 million in the three months ended September 30, 2017 to \$17.1 million in the comparable period in 2018, primarily due to the ETFS Acquisition. Fund management and administration expense and compensation expense increased due to higher average AUM and higher headcount, respectively. In addition, during the three months ended September 30, 2018 we recognized contractual gold payments expense of \$2.9 million. Headcount of our International Business segment was 43 and 76 at September 30, 2017 and 2018, respectively.

Other income, net of the International Business segment was \$5.0 million for the three months ended September 30, 2018, which was comprised of a gain on revaluation of deferred consideration of \$7.7 million, partly offset by interest expense of \$2.6 million incurred principally in connection with the Term Loan and other losses of \$0.2 million.

### **Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017**

#### *U.S. Business segment*

Operating revenues of the U.S. Business segment of \$159.2 million was essentially unchanged from the nine months ended September 30, 2017, as higher average AUM was offset by lower average U.S. listed ETF advisory fees due to a change in product mix. Our average U.S. listed ETF advisory fee was 0.49% and 0.50% during the nine months ended September 30, 2018 and September 30, 2017, respectively.

Operating expenses of the U.S. Business segment increased 7.9% from \$107.0 million in the nine months ended September 30, 2017 to \$115.4 million in the comparable period in 2018. Included in the nine months ended

September 30, 2018 were acquisition-related costs associated with the ETFs Acquisition of \$8.2 million. These costs included professional advisor fees and integration costs. In addition, the increase was also attributable to higher professional fees, higher spending on sales related activities and higher third-party distribution fees expense due to a new distribution relationship announced in the fourth quarter of 2017. These increases were partly offset by lower incentive compensation.

Other income, net of the U.S. Business segment declined 78.2% from \$8.9 million in the nine months ended September 30, 2017 to \$2.0 million in the comparable period in 2018. This decline was principally due to the \$6.9 million settlement gain which was recognized in June 2017.

*International Business segment*

Operating revenues of the International Business segment increased \$39.6 million, from \$7.5 million in the nine months ended September 30, 2017 to \$47.1 million in the comparable period in 2018. This increase was attributable to higher average AUM which increased primarily due to \$17.6 billion of AUM acquired in connection with the ETFs Acquisition.

Operating expenses of the International Business segment increased 151.4% from \$16.4 million in the nine months ended September 30, 2017 to \$41.3 million in the comparable period in 2018, primarily due to the ETFs Acquisition. Fund management and administration expense and compensation expense increased due to higher average AUM and higher headcount, respectively. In addition, during the nine months ended September 30, 2018 we recognized contractual gold payments expense of \$5.6 million and acquisition-related costs of \$2.2 million associated with the ETFs Acquisition.

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Other income, net of the International Business segment was \$12.2 million for the nine months ended September 30, 2018, which was comprised of a gain on revaluation of deferred consideration of \$17.6 million, partly offset by interest expense of \$4.7 million incurred principally in connection with the Term Loan and other losses of \$0.7 million. The other losses represent realized losses arising from the sale of gold earned on advisory fees paid by physically-backed gold ETPs associated with the ETFs Acquisition and miscellaneous foreign exchange losses.

**Liquidity and Capital Resources**

The following table summarizes key data regarding our liquidity, capital resources and use of capital to fund our operations:

|  | <b>September 30,<br/>2018</b>                   | <b>December 31,<br/>2017</b> |
|--|---|------------------------------|
| <b><u>Balance Sheet Data (in thousands):</u></b> |   |                              |
| Cash and cash equivalents                        | \$ 77,125                                       | \$ 54,193                    |
| Securities owned, at fair value                  | 4,426   | 66,294                       |
| Securities held-to-maturity                      | 20,199  | 21,299                       |
| Accounts receivable                              | 25,528  | 21,309                       |
| <br>   |   |                              |
| Total: Liquid assets                             | 127,278   | 163,095                      |
| Less: Total current liabilities                  | (61,384)  | (57,348)                     |
| <br>   |   |                              |
| Subtotal   | 65,894  | 105,747                      |
| Plus: Revolving credit facility - undrawn        | 50,000  |                              |
| <br>   |   |                              |
| Total: Available liquidity                       | \$ 115,894                                      | \$ 105,747                   |
| <br>   |   |                              |
|  | <b>Nine Months Ended September 30,<br/>2018</b> | <b>2017</b>                  |
| <b><u>Cash Flow Data (in thousands):</u></b>     |   |                              |
| Operating cash flows                             | \$ 30,200                                       | \$ 31,079                    |
| Investing cash flows                             | (181,764)                                       | (17,809)                     |
| Financing cash flows                             | 175,654   | (36,950)                     |
| Foreign exchange rate effect                     | (1,158)   | 1,179                        |
| <br>   |   |                              |
| Increase/(decrease) in cash and cash equivalents | \$ 22,932                                       | \$ (22,501)                  |

***Liquidity***

We consider our available liquidity to be our liquid assets and available borrowings under our revolving credit facility, less our current liabilities. Liquid assets consist of cash and cash equivalents, securities owned, at fair value, securities held-to-maturity and accounts receivable. Our securities owned, at fair value are highly liquid investments. Certain securities are accounted for as held-to-maturity securities and we have the intention and ability to hold them to maturity. However, these securities are also readily traded and, if needed, could be sold for liquidity. Accounts receivable are current assets and primarily represent receivables from advisory fees we earn from our ETPs. Our



current liabilities consist primarily of payments owed to vendors and third parties in the normal course of business as well as accrued year end compensation for employees.

See the section below titled **Credit Facility** for a discussion of our revolving credit facility.

Cash and cash equivalents increased \$22.9 million in the nine months ended September 30, 2018 due to \$200.0 million proceeds from the issuance of long-term debt, \$64.5 million from sales and maturities of debt securities available-for-sale, \$30.2 million of cash generated by our operating activities and \$1.1 million from held-to-maturity securities called or maturing during the period. These increases were partly offset by \$239.3 million of cash paid upon closing of the ETFS Acquisition, net of cash acquired, \$14.2 million used to pay dividends on our common stock, \$8.7 million used to pay credit facility issuance costs, \$8.0 million used to fund the AdvisorEngine note receivable, \$1.4 million used to repurchase our common stock and \$1.3 million used for other activities.

Cash and cash equivalents decreased \$22.5 million in the nine months ended September 30, 2017 due to \$76.8 million used to purchase securities available-for-sale, \$32.8 million used to pay dividends on our common stock, \$5.0 million invested in AdvisorEngine, \$4.2 million used to repurchase our common stock and \$3.0 million used to purchase held-to-maturity securities. These decreases were partly offset by \$65.1 million from sales and maturities of securities available-for-sale, \$31.1 million of cash generated by our operating activities, \$2.2 million from held-to-maturity securities called or maturing during the period and \$0.9 million generated from other activities.

**Table of Contents*****Credit Facility***

On April 11, 2018 and in connection with the ETFs Acquisition, we and WisdomTree International entered into a credit agreement (the *Credit Agreement*), by and among us, WisdomTree International, certain subsidiaries of ours as guarantors, the lenders party thereto and Credit Suisse AG, Cayman Islands Branch, as administrative agent, collateral agent, L/C Issuer and lender. Under the Credit Agreement, the lenders extended a \$200.0 million Term Loan to WisdomTree International, the net cash proceeds of which were used by WisdomTree International, together with other cash on hand, to complete the acquisition and pay certain related fees, costs and expenses, and made a \$50.0 revolving credit facility (the *Revolver* and, together with the Term Loan, the *Credit Facility*) available to the Company and WisdomTree International for revolving borrowings from time to time for working capital, capital expenditures and general corporate purposes.

Interest on the Term Loan accrues at a rate per annum equal to LIBOR, plus up to 2.00% (commencing at LIBOR, plus 1.75%), and interest on the Revolver accrues at a rate per annum equal to LIBOR, plus up to 1.50% (commencing at LIBOR, plus 1.25%), in each case, with the exact interest rate margin determined based on the Total Leverage Ratio (as defined below). The Revolver is also subject to a facility fee equal to a rate per annum of up to 0.50% of the actual daily amount of the aggregate commitments (whether used or unused) under the Revolver, with the exact facility fee rate determined based on the Total Leverage Ratio. The Credit Facility matures on April 11, 2021 (the *Maturity Date*). The Term Loan does not amortize and the entire principal balance is due in a single payment on the Maturity Date.

The Credit Agreement governing the terms of the Credit Facility includes a financial covenant that requires that we maintain a Total Leverage Ratio, calculated as of the last day of each fiscal quarter commencing with the fiscal quarter ending September 30, 2018, equal to or less than the ratio set forth opposite such fiscal quarter:

| <b>Fiscal Quarter Ending</b>  | <b>Total Leverage Ratio</b> |
|---|-----------------------------|
| September 30, 2018  | 2.75:1.00                   |
| December 31, 2018   | 2.75:1.00                   |
| March 31, 2019  | 2.75:1.00                   |
| June 30, 2019   | 2.50:1.00                   |
| September 30, 2019  | 2.50:1.00                   |
| December 31, 2019   | 2.50:1.00                   |
| March 31, 2020  | 2.25:1.00                   |
| June 30, 2020   | 2.25:1.00                   |
| September 30, 2020 and each subsequent fiscal quarter ending on or before the Maturity Date | 2.00:1.00                   |

Total Leverage Ratio means, as of the last day of any fiscal quarter, the ratio of Consolidated Total Debt of ours and our restricted subsidiaries (as defined in the Credit Agreement) as of such date to Consolidated EBITDA of ours and our restricted subsidiaries (as defined in the Credit Agreement) for the four consecutive fiscal quarters ended on such date.

WisdomTree International's obligations under the Term Loan and Revolver are unconditionally guaranteed by us and certain of our subsidiaries and secured by a lien on substantially all of the present and future property and assets of ours, WisdomTree International and such subsidiaries, in each case, subject to customary exceptions and exclusions. Our obligations under the Revolver are unconditionally guaranteed by certain of our wholly-owned domestic subsidiaries and secured by substantially all of the present and future property and assets of ours and such subsidiaries, in each case, subject to customary exceptions and exclusions.

The Credit Agreement contains customary affirmative covenants for transactions of this type and other affirmative covenants agreed to by the parties, including, among others, the provision of annual and quarterly financial statements and compliance certificates, maintenance of property, insurance, compliance with laws and environmental matters. The Credit Agreement contains customary negative covenants, including among others, restrictions on the incurrence of indebtedness, granting of liens, making investments and acquisitions, paying dividends, repurchasing equity interests of ours, entering into affiliate transactions and asset sales. The Credit Agreement also provides for a number of customary events of default, including, among others, payment, bankruptcy, covenant, representation and warranty, change of control and judgment defaults.

We were in compliance with our covenants under the Credit Agreement during the period April 11, 2018 through September 30, 2018.

**Table of Contents****Capital Resources**

Our principal source of financing is our operating cash flow. We believe that current cash flows generated by our operating activities and existing cash balances should be sufficient for us to fund our operations for at least the next 12 months. In addition, we have access to the Revolver for working capital, capital expenditures and general corporate purposes. No amounts are currently outstanding under the Revolver.

**Use of Capital**

Our business does not require us to maintain a significant cash position. We potentially may use our cash to exercise our option to acquire the remaining equity interests in AdvisorEngine (See Note 9 to our Consolidated Financial Statements). Otherwise, our cash position is available to fund the ongoing operations of our business. Also, as part of our capital management, we maintain a capital return program which includes a \$0.03 per share quarterly cash dividend and authority to purchase our common stock through April 27, 2019, including purchases to offset future equity grants made under our equity plans. As previously mentioned, under the terms of the Credit Agreement, we are subject to various covenants including compliance with the Total Leverage Ratio. A quarterly dividend payment in excess of \$0.03 per share and repurchases of our common stock (excluding purchases of our common stock withheld pursuant to the terms of equity awards granted to employees to satisfy tax withholding obligations) are permitted only to the extent the Total Leverage Ratio does not exceed 1.75 to 1.00 and no event of default (as defined in the Credit Agreement) has occurred and is continuing at the time the cash dividend payment or stock repurchase is made.

During the three months ended September 30, 2018, we repurchased 47,816 shares of our common stock under the repurchase program for an aggregate cost of \$0.4 million. Currently, \$87.2 million remains under this program for future purchases.

**Contractual Obligations**

The following table summarizes our future cash payments associated with contractual obligations as of September 30, 2018:

|                  | Total      | Payments Due by Period<br>(in thousands) |              |              |                      |
|------------------|------------|--|--------------|--------------|----------------------|
|                  |            | Less than 1<br>year                      | 1 to 3 years | 3 to 5 years | More than 5<br>years |
| Term Loan        | \$ 200,000 | \$                                       | \$ 200,000   | \$           | \$                   |
| Operating leases | 34,128     | 1,282                                    | 8,464        | 8,638        | 15,744               |
| Total            | \$ 234,128 | \$ 1,282                                 | \$ 208,464   | \$ 8,638     | \$ 15,744            |

**Off-Balance Sheet Arrangements**

Other than operating leases, which are included in the table above, we do not have any off-balance sheet financing or other arrangements. We have neither created nor are party to any special-purpose or off-balance sheet entities for the purpose of raising capital, incurring debt or operating our business.

**Critical Accounting Policies**

### ***Goodwill and Intangible Assets***

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 and at the time of a triggering event requiring re-evaluation, if one were to occur, in accordance with Accounting Standards Update, or ASU, 2017-04 *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. We early adopted the revised guidance for impairment tests performed after January 1, 2017. Under the revised guidance, goodwill is considered impaired when the estimated fair value of the reporting unit that was allocated the goodwill is less than its carrying value. If the estimated fair value of such reporting unit is less than its carrying value, goodwill impairment is recognized based on that difference, not to exceed the carrying amount of goodwill. A reporting unit is an operating segment or a component of an operating segment provided that the component constitutes a business for which discrete financial information is available and management regularly reviews the operating results of that component.

For impairment testing purposes, goodwill has been allocated to our U.S. Business reporting unit which is assessed annually for impairment on April 30th. In addition, goodwill arising from the ETFs Acquisition (See Note 3 to our Consolidated Financial Statements) has been allocated to the European Business reporting unit included in the International Business reportable segment and assessed annually for impairment on November 30<sup>th</sup>. When performing our goodwill impairment test, we consider a qualitative assessment, when appropriate, and the income approach, market approach and our market capitalization when determining the fair value of our reporting units. Goodwill allocated to our U.S. Business reporting unit was assessed for impairment as of April 30, 2018. The results of this analysis indicated no impairment.

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Indefinite-lived intangible assets are tested for impairment at least annually and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Indefinite-lived intangible assets are impaired if their estimated fair value is less than their carrying value. We may rely on a qualitative assessment when performing our intangible asset impairment test. Otherwise, the impairment evaluation is performed at the lowest level of reasonably identifiable cash flows independent of other assets. The annual impairment testing date for all of the Company's intangible assets is November 30.

***Investments, Carried at Cost***

We account for equity investments that do not have a readily determinable fair value as cost method investments under the measurement alternative prescribed within ASU 2016-01, *Financial Instruments – Recognition and Measurement of Financial Assets and Financial Liabilities*, to the extent such investments are not subject to consolidation or the equity method. Under the measurement alternative, these financial instruments are carried at cost, less any impairment (assessed quarterly), plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. In addition, income is recognized when dividends are received only to the extent they are distributed from net accumulated earnings of the investee. Otherwise, such distributions are considered returns of investment and are recorded as a reduction of the cost of the investment.

***Revenue Recognition***

We earn substantially all of our revenue in the form of advisory fees from our ETPs and recognize this revenue over time, as the performance obligation is satisfied. ETP advisory fees are based on a percentage of the ETPs' average daily net assets. Progress is measured using the practical expedient under the output method resulting in the recognition of revenue in the amount for which we have a right to invoice.

***Recently Issued Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board, or FASB, issued ASU 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), a comprehensive revenue recognition standard on the financial reporting requirements for revenue from contracts entered into with customers. In July 2015, the FASB deferred this ASU's effective date by one year, to interim and annual periods beginning after December 15, 2017. The deferral allows early adoption at the original effective date. During 2016, the FASB issued ASU 2016-08, which clarifies principal versus agent considerations, ASU 2016-10, which clarifies identifying performance obligations and the licensing implementation guidance, and ASU 2016-12, which amends certain aspects of the new revenue recognition standard pursuant to ASU 2014-09. ASU 2014-09 allows for the use of either the retrospective or modified retrospective adoption method. The guidance in ASU 2014-09, and the related amendments, became effective for us on January 1, 2018. We adopted this standard under the modified retrospective method and determined the standard did not have a material impact on our historical pattern of recognizing revenue from contracts with customers in our consolidated financial statements (See Note 16 to our Consolidated Financial Statements).

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01). The main objective of the standard is to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments in the update make targeted improvements to generally accepted accounting principles. These include requiring equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. Available-for-sale classification for equity investments with readily determinable fair values will no longer be

permissible. However, an entity may choose a measurement alternative to measure equity investments that do not have readily determinable fair values by recognizing these financial instruments at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. The update also simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We adopted this standard on January 1, 2018 and have elected to apply the measurement alternative to our equity investments that do not have readily determinable fair values. The adoption of this standard did not have a material impact on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments* (ASU 2016-13). The main objective of the standard is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. In issuing the standard, the FASB is responding to criticism that today's guidance delays recognition of credit losses. The standard will replace today's incurred loss approach with an expected loss model. The new model, referred to as the current expected credit loss (CECL) model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. The standard is applicable to loans, accounts receivable, trade receivables, and other financial assets measured at amortized cost, loan commitments and certain other off-balance sheet credit exposures, debt securities (including those held-to-maturity) and other financial assets measured at fair value through

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other comprehensive income, and beneficial interests in securitized financial assets. The CECL model does not apply to available-for-sale debt securities. For available-for-sale debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the credit losses will be recognized as allowances rather than reductions in the amortized cost of the securities. Accordingly, the new methodology will be utilized when assessing our financial instruments for impairment. As a result, entities will recognize improvements to estimated credit losses immediately in earnings rather than as interest income over time, as they do today. The ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for loan and lease losses. ASU 2016-13 is effective for years beginning after December 15, 2019, including interim periods within those fiscal years under a modified retrospective approach. Early adoption is permitted for periods beginning after December 15, 2018. We are currently evaluating the impact that the standard will have on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (ASU 2016-02), which requires lessees to include most leases on the balance sheet. ASU 2016-02 is effective for fiscal years (and interim reporting periods within those years) beginning after December 15, 2018 and early adoption is permitted. We are currently evaluating the impact that the standard will have on our consolidated financial statements and expect, at a minimum, that its implementation will result in a gross-up on the consolidated balance sheets upon recognition of right-of-use assets and lease liabilities associated with the future minimum payments required under operating leases as disclosed in Note 14 to our Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) Disclosure Framework Changes to the Disclosure Requirements for Fair Value Measurement* (ASU 2018-13), which modifies the disclosure requirements on fair value measurements, including removing the requirement to disclose (1) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, (2) the policy for timing of transfers between levels and (3) the valuation processes for Level 3 fair value measurements. ASU 2018-13 also added new disclosures including the requirement to disclose (A) the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and (B) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. ASU 2018-13 is effective for fiscal years (and interim reporting periods within those years) beginning after December 15, 2019 and early adoption is permitted. This standard will only impact the disclosures pertaining to fair value measurements.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The following information, together with information included in other parts of this Management's Discussion and Analysis of Financial Condition and Results of Operations, describes key aspects of our market risk.

***Market Risk***

Market risk to us generally represents the risk of changes in the value of securities held in the portfolios of the WisdomTree ETPs that generally results from fluctuations in securities prices, foreign currency exchange rates against the U.S. dollar, and interest rates. Nearly all of our revenues are derived from advisory agreements for the WisdomTree ETFs. Under these agreements, the advisory fee we receive is based on the average market value of the assets in the WisdomTree ETF portfolios we manage.

Fluctuations in the value of these securities are common and are generated by numerous factors such as market volatility, the overall economy, inflation, changes in investor strategies and sentiment, availability of alternative



investment vehicles, government regulations and others. Accordingly, changes in any one or a combination of these factors may reduce the value of investment securities and, in turn, the underlying AUM on which our revenues are earned. These declines may cause investors to withdraw funds from our ETPs in favor of investments that they perceive as offering greater opportunity or lower risk, thereby compounding the impact on our revenues. We believe challenging and volatile market conditions will continue to be present in the foreseeable future.

***Interest Rate Risk***

To maximize yields, we invest our corporate cash in short-term interest earning assets, primarily money market instruments at a commercial bank, federal agency debt instruments and short-term investment grade corporate bonds which totaled \$113.1 million and \$55.0 million as of December 31, 2017 and September 30, 2018, respectively. We do not anticipate that changes in interest rates will have a material impact on our financial condition, operating results or cash flows.

In addition, in connection with the ETFs Acquisition, we obtained a \$250.0 million Credit Facility consisting of a \$200.0 million Term Loan and \$50.0 million Revolver. Interest rate risk is not significant as borrowings under these facilities accrue interest at variable rates (See Note 12 to our Consolidated Financial Statements).

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Over the last few years, we have expanded our business globally and are subject to currency translation exposure on the results of our non-U.S. operations, primarily in Europe and Canada. Foreign currency translation risk is the risk that exchange rate gains or losses arise from translating foreign entities' statements of earnings and balance sheets from functional currency to our reporting currency (the U.S. dollar) for consolidation purposes. Historically we generated the vast majority of our revenues and expenses in the U.S. dollar. However, upon completion of the ETFs Acquisition our exposure to exchange rate risk has increased. While the advisory fees earned by ETFs are predominantly in U.S. dollars (and also paid in gold ounces, as described below), expenses for corporate overhead are generally incurred in British pounds. Currently, we do not enter into derivative financial instruments aimed at offsetting certain exposures in the statement of operations or the balance sheet but may seek to do so in the future.

Exchange rate risk associated with the Euro and Canadian Dollar is not considered to be significant.

***Commodity Price Risk***

The completion of the ETFs Acquisition has provided us with an industry leading position in European listed gold and commodity products. Fluctuations in the prices of commodities that are linked to certain of these ETPs could have a material adverse effect on ETFs' AUM and revenues. In addition, a portion of the advisory fee revenues we receive on our ETPs backed by gold are paid in gold ounces. In addition, we pay gold ounces to satisfy our deferred consideration obligation that we assumed in connection with the ETFs Acquisition (See Note 11 to our Consolidated Financial Statements). While we may readily sell the gold that we earn under these advisory contracts, we still may maintain a position. We currently do not enter into arrangements to hedge against fluctuations in the price of gold and any hedging we may undertake in the future may not be cost-effective or sufficient to hedge against this gold exposure.

**ITEM 4. CONTROLS AND PROCEDURES****Evaluation of Disclosure Controls and Procedures**

As of September 30, 2018, our management, with the participation of our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(b) promulgated under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Based upon that evaluation, our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer concluded that, as of September 30, 2018, our disclosure controls and procedures were effective at a reasonable assurance level in ensuring that material information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules, regulations and forms of the SEC, including ensuring that such material information is accumulated by and communicated to our management, including our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, as appropriate to allow timely decisions regarding required disclosure. See "Changes in Internal Control over Financial Reporting" below for a discussion regarding the ETFs Acquisition which we completed on April 11, 2018 (See Note 3 to our Consolidated Financial Statements).

**Changes in Internal Control over Financial Reporting**

As of the date of this Report, we are in the process of integrating the acquired operations of ETFs into our overall internal control over financial reporting (ICFR). We currently anticipate that we will be deferring our assessment of the ICFR related to ETFs, which for the nine months ended September 30, 2018 represented approximately 18% of

our total revenues.

Notwithstanding the recently completed ETFs Acquisition, during the quarter ended September 30, 2018, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II: OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

None.

### **ITEM 1A. RISK FACTORS**

You should carefully consider the information set forth in this Report, as well as the information in Part 1, Item 1A.

Risk Factors in our annual Report on Form 10-K for the fiscal year ended December 31, 2017 and Quarterly Report on Form 10-Q for the quarter ended March 31, 2018.

**Table of Contents****ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****Recent sales of Unregistered Securities**

None.

**Use of Proceeds**

Not applicable.

**Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

The following table provides information with respect to purchases made by or on behalf of the Company or any affiliated purchaser of shares of our common stock.

| <b>Period</b>                           | <b>Total Number<br/>of Shares<br/>Purchased</b> | <b>Average Price<br/>Paid Per Share</b> | <b>Total<br/>Number of<br/>Shares Purchased<br/>as<br/>Part of Publicly<br/>Announced Plans<br/>or<br/>Programs<sup>(1)</sup></b> | <b>Approximate<br/>Dollar<br/>Value of<br/>Shares<br/>that<br/>May Yet Be<br/>Purchased<br/>Under the<br/>Plans or<br/>Programs<br/>(in thousands)</b> |
|---|---|---|---|--|
| July 1, 2018 to July 31, 2018           | 30,852  | \$ 9.32                                 | 30,852  |  |
| August 1, 2018 to August 31, 2018       | 13,453  | \$ 8.09                                 | 13,453  |  |
| September 1, 2018 to September 30, 2018 | 3,511   | \$ 7.88                                 | 3,511   |  |
| <b>Total</b>                            | <b>47,816</b>                                   | <b>\$ 8.87</b>                          | <b>47,816</b>   | <b>\$ 87,184</b>   |

- (1) On October 29, 2014, our Board of Directors authorized a three-year share repurchase program of up to \$100.0 million. On April 27, 2016, the Board approved a \$60.0 million increase to this program and extended the term through April 27, 2019, increasing the total authorized repurchase amount to \$100.3 million. During the three months ended September 30, 2018, we repurchased 47,816 shares of our common stock under this program for an aggregate cost of \$0.4 million. As of September 30, 2018, \$87.2 million remained under this program for future purchases. Under the terms of the Credit Agreement governing the Credit Facility, share repurchases are permitted only to the extent the Total Leverage Ratio does not exceed 1.75 to 1.00 and no event of default (as defined in the Credit Agreement) has occurred and is continuing at the time the stock repurchase is made (See Note 12 to our Consolidated Financial Statements). However, our ability to purchase shares of our common stock withheld pursuant to the terms of equity awards granted to employees to satisfy tax withholding obligations will not be restricted.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

**Table of Contents****ITEM 6. EXHIBITS**

| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 3.1                | <u>Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Registrant's Registration Statement on Form 10, filed with the SEC on March 31, 2011)</u>  |
| 3.2                | <u>Certificate of Designations of Series A Non-Voting Convertible Preferred Stock of the Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed with the SEC on April 13, 2018)</u>   |
| 3.3                | <u>Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 of the Registrant's Registration Statement on Form 10, filed with the SEC on March 31, 2011)</u>  |
| 4.1                | <u>Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 of the Registrant's Registration Statement on Form 10, filed with the SEC on March 31, 2011)</u>  |
| 4.2                | <u>Amended and Restated Stockholders Agreement among the Registrant and certain investors dated December 21, 2006 (incorporated by reference to Exhibit 4.2 of the Registrant's Registration Statement on Form 10, filed with the SEC on March 31, 2011)</u>   |
| 4.3                | <u>Securities Purchase Agreement among the Registrant and certain investors dated December 21, 2006 (incorporated by reference to Exhibit 4.3 of the Registrant's Registration Statement on Form 10, filed with the SEC on March 31, 2011)</u>   |
| 4.4                | <u>Securities Purchase Agreement among the Registrant and certain investors dated October 15, 2009 (incorporated by reference to Exhibit 4.4 of the Registrant's Registration Statement on Form 10, filed with the SEC on March 31, 2011)</u>  |
| 4.5                | <u>Third Amended and Restated Registration Rights Agreement dated October 15, 2009 (incorporated by reference to Exhibit 4.5 of the Registrant's Registration Statement on Form 10, filed with the SEC on March 31, 2011)</u>  |
| 4.6                | <u>Investor Rights Agreement, dated April 11, 2018, between the Registrant and ETF Securities Limited (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed with the SEC on April 13, 2018)</u>   |
| 31.1 (1)           | <u>Certification of Chief Executive Officer and Principal Executive Officer pursuant to Rule 13a-14 of the Exchange Act</u>  |
| 31.2 (1)           | <u>Certification of Chief Financial Officer and Principal Financial Officer pursuant to Rule 13a-14 of the Exchange Act</u>  |
| 31.3 (1)           | <u>Certification of Chief Accounting Officer and Principal Accounting Officer pursuant to Rule 13a-14 of the Exchange Act</u>  |
| 32 (1)             | <u>Section 1350 Certification</u>  |
| 101 (1)            | Financial Statements from the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2018, formatted in XBRL: (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations and Comprehensive Income (Unaudited); (iii) Consolidated Statements of Cash Flows (Unaudited); and (iv) Notes to Consolidated Financial Statements, as blocks of text and in detail. |

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|             |  |
|-------------|--|
| 101.INS (1) | XBRL Instance Document                                 |
| 101.SCH (1) | XBRL Taxonomy Extension Schema Document                |
| 101.CAL (1) | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.DEF (1) | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB (1) | XBRL Taxonomy Extension Label Linkbase Document        |
| 101.PRE (1) | XBRL Taxonomy Extension Presentation Linkbase Document |

(1) Filed herewith.

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**SIGNATURE**

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 on this 7<sup>th</sup> day of November 2018.

WISDOMTREE INVESTMENTS, INC.

By: /s/ Jonathan Steinberg  
Jonathan Steinberg  
*Chief Executive Officer and President  
(Authorized Officer and Principal  
Executive Officer)*

WISDOMTREE INVESTMENTS, INC.

By: /s/ Amit Muni  
Amit Muni  
*Chief Financial Officer (Authorized  
Officer and Principal Financial Officer)*

WISDOMTREE INVESTMENTS, INC.

By: /s/ Bryan Edmiston  
Bryan Edmiston  
*Chief Accounting Officer (Authorized  
Officer and Principal Accounting Officer)*