DIAMOND HILL INVESTMENT GROUP INC
Form 10-Q
July 26, 2017
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United States
Securities and Exchange Commission
Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
Commission file number 000-24498

DIAMOND HILL INVESTMENT GROUP, INC.

(Exact name of registrant as specified in its charter)

Ohio	65-0190407
(State of incorporation)	(I.R.S. Employer Identification No.)

325 John H. McConnell Blvd, Suite 200, Columbus, Ohio 43215
(Address of principal executive offices) (Zip Code)
(614) 255-3333
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes: x No: ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the 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	x

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

The number of shares outstanding of the issuer’s common stock, as of July 26, 2017, is 3,453,677 shares.

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DIAMOND HILL INVESTMENT GROUP, INC.

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PART I: FINANCIAL INFORMATION

ITEM 1: Consolidated Financial Statements
Diamond Hill Investment Group, Inc.
Consolidated Balance Sheets

	6/30/2017 (Unaudited)	12/31/2016
ASSETS		
Cash and cash equivalents	$70,504,429	$57,189,876
Investment portfolio	126,027,827	108,015,635
Accounts receivable	17,778,026	18,605,209
Prepaid expenses	2,055,954	2,032,726
Income taxes receivable	—	1,111,890
Property and equipment, net of depreciation	3,586,094	4,025,758
Deferred taxes	9,933,828	8,736,767
Total assets	$229,886,158	$199,717,861
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Liabilities		
Accounts payable and accrued expenses	$8,491,628	$9,787,048
Accrued incentive compensation	13,756,000	22,683,500
Deferred compensation	19,119,772	14,182,470
Income taxes payable	73,499	—
Total liabilities	41,440,899	46,653,018
Redeemable noncontrolling interest	17,734,895	13,840,688
Shareholders’ equity		
Common stock, no par value 7,000,000 shares authorized; 3,457,775 issued and outstanding at June 30, 2017 (inclusive of 200,500 unvested shares); 3,411,556 issued and outstanding at December 31, 2016 (inclusive of 201,800 unvested shares)	116,845,374	109,293,803
Preferred stock, undesignated, 1,000,000 shares authorized and unissued	—	—
Deferred equity compensation	(19,188,802)	(17,728,106)
Retained earnings	73,053,792	47,658,458
Total shareholders’ equity	170,710,364	139,224,155
Total liabilities and shareholders’ equity	$229,886,158	$199,717,861
Book value per share	$49.37	$40.81

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

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Diamond Hill Investment Group, Inc.
Consolidated Statements of Income (unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
REVENUES:				
Investment advisory	$32,558,324	$28,553,082	$64,323,301	$55,239,867
Mutual fund administration, net	2,984,217	4,116,353	6,258,313	7,887,057
Total revenue	35,542,541	32,669,435	70,581,614	63,126,924
OPERATING EXPENSES:				
Compensation and related costs	14,313,734	13,381,347	27,992,883	25,780,056
General and administrative	2,980,469	2,575,941	6,468,585	5,061,100
Sales and marketing	1,252,852	1,061,046	2,382,570	2,054,168
Mutual fund administration	1,028,738	951,852	2,029,354	1,827,918
Total operating expenses	19,575,793	17,970,186	38,873,392	34,723,242
NET OPERATING INCOME	15,966,748	14,699,249	31,708,222	28,403,682
Investment income, net	3,024,729	692,666	6,905,973	1,439,888
INCOME BEFORE TAXES	18,991,477	15,391,915	38,614,195	29,843,570
Income tax expense	(6,024,458)	(5,624,808)	(12,521,728)	(10,796,584)
NET INCOME	12,967,019	9,767,107	26,092,467	19,046,986
Less: Net income attributable to redeemable noncontrolling interest	(328,580)	(52,555)	(697,133)	(66,771)
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	$12,638,439	$9,714,552	$25,395,334	$18,980,215
Earnings per share attributable to common shareholders				
Basic	$3.67	$2.85	$7.39	$5.58
Diluted	$3.66	$2.84	$7.38	$5.58
Weighted average shares outstanding				
Basic	3,443,783	3,410,751	3,436,391	3,399,740
Diluted	3,449,128	3,415,192	3,441,022	3,403,198

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

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Diamond Hill Investment Group, Inc.
Consolidated Statements of Shareholders' Equity and Redeemable Noncontrolling Interest (unaudited)

	Shares Outstanding	Common Stock	Deferred Equity Compensation	Retained Earnings	Total	Redeemable Noncontrolling Interest
Balance at December 31, 2016	3,411,556	$109,293,803	$(17,728,106)	$47,658,458	$139,224,155	$ 13,840,688
Issuance of restricted stock grants	33,700	4,833,946	(4,833,946)	—	—	—
Amortization of restricted stock grants	—	—	3,244,085	—	3,244,085	—
Issuance of stock grants	19,219	3,892,424	—	—	3,892,424	—
Issuance of common stock related to 401k plan match	4,174	838,042	—	—	838,042	—
Shares withheld related to employee tax withholding	(9,374)	(1,883,676)	—	—	(1,883,676)	—
Forfeiture of restricted stock grants	(1,500)	(129,165)	129,165	—	—	—
Net income	—	—	—	25,395,334	25,395,334	697,133
Net subscriptions of consolidated funds	—	—	—	—	—	3,197,074
Balance at June 30, 2017	3,457,775	$116,845,374	$(19,188,802)	$73,053,792	$170,710,364	$ 17,734,895

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

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Diamond Hill Investment Group, Inc.
Consolidated Statements of Cash Flows (unaudited)

	Six Months Ended June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$26,092,467	$19,046,986
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	432,705	334,327
Share-based compensation	4,082,127	4,170,356
Decrease in accounts receivable	327,183	1,733,640
Change in current income taxes	1,185,389	3,250,999
Change in deferred income taxes	(1,197,061)	(249,058)
Net gains on investments	(5,774,968)	(1,226,058)
Net change in trading securities held by Consolidated Funds	(3,725,638)	—
Decrease in accrued incentive compensation	(5,035,076)	(7,146,569)
Increase in deferred compensation	4,937,302	2,315,389
Excess income tax benefit from share-based compensation	—	(4,421,408)
Income tax benefit from dividends paid on restricted stock	—	(925,000)
Other changes in assets and liabilities	380,641	693,251
Net cash provided by operating activities	21,705,071	17,576,855
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(129,669)	(248,835)
Purchase of Company sponsored investments	(11,358,395)	(6,133,800)
Proceeds from sale of Company sponsored investments	1,185,088	6,510,550
Proceeds from sale of subsidiary	500,000	—
Net cash provided by (used in) investing activities	(9,802,976)	127,915
CASH FLOWS FROM FINANCING ACTIVITIES:		
Value of shares withheld related to employee tax withholding	(1,883,676)	(9,075,447)
Excess income tax benefit from share-based compensation	—	4,421,408
Income tax benefit from dividends paid on restricted stock	—	925,000
Net subscriptions received from (redemptions and distributions paid to) redeemable noncontrolling interest holders	3,296,134	(706,113)
Net cash provided by (used in) financing activities	1,412,458	(4,435,152)
CASH AND CASH EQUIVALENTS		
Net change during the period	13,314,553	13,269,618
At beginning of period	57,189,876	57,474,777
At end of period	$70,504,429	$70,744,395
Supplemental cash flow information:		
Income taxes paid	$12,533,400	$7,794,643
Supplemental disclosure of non-cash transactions:		
Common stock issued as incentive compensation	$3,892,424	$3,879,431
Charitable donation of corporate investments and property and equipment	1,748,841	1,729,735
Cumulative-effect adjustment from the adoption of ASU 2015-02 (Note 2)	—	4,031,756
Net issuance (redemption) of ETF shares for marketable securities	(99,060)	2,254,210

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

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Diamond Hill Investment Group, Inc.
Notes to Consolidated Financial Statements (unaudited)

Note 1 Business and Organization

Diamond Hill Investment Group, Inc. (the "Company"), an Ohio corporation, derives its consolidated revenues and net income from investment advisory and fund administration services.

Diamond Hill Capital Management, Inc. ("DHCM"), an Ohio corporation, is a wholly owned subsidiary of the Company and a registered investment adviser. DHCM is the investment adviser to the Diamond Hill Funds (the "Funds"), a series of open-end mutual funds, private investment funds ("Private Funds"), an exchange traded fund (the "ETF"), and other institutional accounts. In addition, DHCM is administrator for the Funds.

Beacon Hill Fund Services, Inc. (“BHFS”) and BHIL Distributors, Inc. (“BHIL”), collectively operated as "Beacon Hill," were operating subsidiaries of the Company. The Company sold Beacon Hill on July 31, 2016 (See Note 10). Prior to the sale, Beacon Hill provided compliance, treasury, underwriting and other fund administration services to investment advisers and mutual funds.

Note 2 Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements as of June 30, 2017 and December 31, 2016, and for the three and six month periods ended June 30, 2017 and 2016, for Diamond Hill Investment Group, Inc. and its subsidiaries (referred to in these notes to the condensed consolidated financial statements as "the Company," "management," "we," "us," and "our") have been prepared in accordance with United States generally accepted accounting principles ("GAAP") and with the instructions to Form 10-Q and Article 10 of the Securities and Exchange Commission ("SEC") Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair statement of the financial condition and results of operations at the dates and for the interim periods presented, have been included. The results of operations for any interim period are not necessarily indicative of the results of operations to be expected for any full fiscal year. These unaudited condensed consolidated financial statements and footnotes should be read in conjunction with the audited consolidated financial statements of the Company included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016 ("2016 Annual Report") as filed with the SEC.

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions related to the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Reclassification

Certain prior period amounts and disclosures may have been reclassified to conform to the current period's financial presentation.

Principles of Consolidation

The accompanying consolidated financial statements include the operations of the Company and its controlled subsidiaries. All inter-company transactions and balances have been eliminated in consolidation.

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The Company holds certain investments in the Funds and the ETF we advise for general corporate investment purposes and to provide seed capital for newly formed strategies or to add capital to existing strategies. The Funds are organized in a series fund structure in which there are multiple mutual funds within one Trust. The Trust is an open-end investment company registered under the Investment Company Act of 1940, as amended (the"1940 Act"). The ETF we advise is an individual series of ETF Series Solutions which is also an open-end investment company registered under the 1940 Act. Each of the individual mutual funds and the ETF represent a separate share class of a legal entity organized under the Trust. As of January 1, 2016, the Company adopted ASU 2015-02 - Consolidation (Topic 810): Amendments to the Consolidation Analysis ("ASU 2015-02") and we have performed our analysis at the individual mutual fund and ETF level and have concluded the mutual funds and ETF are voting rights entities ("VREs"). The Company has concluded that the mutual funds and the ETF are VREs because the structure of the investment product is such that the shareholders are deemed to have the power through voting rights to direct the activities that most significantly impact the entity's economic performance. To the extent material, these investment products are consolidated if Company ownership, directly or indirectly, represents a majority interest (greater than 50%). The Company records redeemable noncontrolling interests in consolidated investments for which the Company's ownership is less than 100%. The Company has consolidated the ETF and one of our individual mutual funds (collectively the "Consolidated Funds") as our ownership was greater than 50% in each.

DHCM is the managing member of Diamond Hill General Partner, LLC (the “General Partner”), the general partner of Diamond Hill Investment Partners, L.P. (“DHIP”), Diamond Hill Global Fund, L.P. ("DHGF"), and Diamond Hill International Equity Fund, L.P. ("DHIEF"), each a limited partnership (collectively, the "Partnerships" or “LPs”) whose underlying assets consist primarily of marketable securities.

DHCM is wholly owned by the Company and is consolidated by us. Further, DHCM, through its control of the General Partner, has the power to direct each LP’s economic activities and the right to receive investment advisory fees that may be significant to the LPs.

The Company concluded we did not have a variable interest in DHIP as the fees paid to the General Partner are considered to contain customary terms and conditions as found in the market for similar products and the Company has no equity ownership in DHIP.

The Company concluded DHGF and DHIEF were variable interest entities ("VIEs") as DHCM has disproportionately less voting interests than economic interests in each LP, yet the limited partners have full power to remove the Company as the General Partner due to the existence of substantive kick-out rights. In addition, substantially all of the LPs' activities are conducted on behalf of the General Partner which has disproportionately few voting rights. The Company concluded we are not the primary beneficiary of DHGF or DHIEF as we lack the power to control the entities due to the existence of single-party kick-out rights where the limited partners have the unilateral ability to remove the General Partner without cause. DHCM’s investment in DHGF and DHIEF is reported as a component of the Company’s investment portfolio, valued at DHCM’s respective share of the net income or loss of each LP.

The LPs are not subject to lock-up periods and can be redeemed on demand. Gains and losses attributable to changes in the value of DHCM’s interests in the LPs are included in the Company’s reported investment income. The Company’s exposure to loss as a result of its involvement with the LPs is limited to the amount of its investments. DHCM is not obligated to provide, and has not provided, financial or other support to the LPs, other than its investments to date and its contractually provided investment advisory responsibilities. The Company has not provided liquidity arrangements, guarantees or other commitments to support the LPs’ operations, and the LPs’ creditors and interest holders have no recourse to the general credit of the Company.

Certain board members, officers and employees of the Company invest in the LPs and are not subject to a management fee or an incentive fee. These individuals receive no remuneration as a result of their personal investment in the LPs. The capital of the General Partner is not subject to a management fee or an incentive fee.

Redeemable Noncontrolling Interest

Redeemable noncontrolling interest represents third-party interests in the Consolidated Funds. This interest is redeemable at the option of the investors and therefore is not treated as permanent equity. Redeemable noncontrolling interest is remeasured at redemption value, which approximates the fair value each reporting period.

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Segment Information

Management has determined that the Company operates in one business segment, providing investment management and administration services to mutual funds, institutional accounts, and private investment funds. Therefore, no disclosures relating to operating segments are presented in the Company's annual or interim financial statements.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and money market mutual funds.

Accounts Receivable

Accounts receivable are recorded when they are due and are presented on the balance sheet net of any allowance for doubtful accounts. Accounts receivable are written off when they are determined to be uncollectible. Any allowance for doubtful accounts is estimated based on the Company’s historical losses, existing conditions in the industry, and the financial stability of the individuals or entities that owe the receivable. No allowance for doubtful accounts was deemed necessary at June 30, 2017 or December 31, 2016. Accounts receivable from the Funds were $10.6 million as of June 30, 2017 and $10.4 million as of December 31, 2016.

Investments

Management determines the appropriate classification of its investments at the time of purchase and re-evaluates its determination at each reporting period.

Investments classified as trading represent investments in the Funds we advise where the Company has neither control nor the ability to exercise significant influence as well as securities held in the Consolidated Funds. These investments are measured at fair value based on quoted market prices. Unrealized gains and losses are recorded as investment income (loss) in the Company's consolidated statements of income.

Investments classified as equity method investments represent investments in which the Company owns between 20-50% of the outstanding voting interests in the entity or when it is determined that the Company is able to exercise significant influence but not control over the investments. When using the equity method, the Company recognizes its respective share of the investee's net income or loss for the period which is recorded as investment income in the Company's consolidated statements of income.

Fair Value Measurements

Accounting Standards Codification Topic 820, Fair Value Measurement ("ASC 820") specifies a hierarchy of valuation classifications based on whether the inputs to the valuation techniques used in each valuation classification are observable or unobservable. These classifications are summarized in the three broad levels listed below:

Level 1 - Unadjusted 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-driven valuations in which all significant inputs are observable.

Level 3 - Valuations derived from techniques in which significant inputs are unobservable.

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Inputs used to measure fair value might fall in different levels of the fair value hierarchy, in which case the Company defaults to the lowest level input that is significant to the fair value measurement in its entirety. These levels are not necessarily an indication of the risk or liquidity associated with investments. The following table summarizes investments that are recognized in our consolidated balance sheet using fair value measurements (excludes investments classified as equity method investments) determined based upon the differing levels of inputs as of June 30, 2017:

	Level 1	Level 2	Level 3	Total
Cash equivalents	$69,159,130	$ —	$ —	$69,159,130
Trading Investments				
Securities held in Consolidated Funds[a]	18,493,234	45,096,971	—	63,590,205
Company sponsored investments	33,923,196	—	—	33,923,196

(a) Of the securities held in the Consolidated Funds as of June 30, 2017, $43.2 million were held directly by the Company and $20.4 million were held by noncontrolling shareholders.

Level 1 investments are all registered investment companies (mutual funds) or securities held in the Consolidated Funds and include, $69.2 million of investments in money market mutual funds that the Company classifies as cash equivalents.

Level 2 investments are comprised of investments in debt securities, which are valued by an independent pricing service using pricing techniques which take into account factors such as trading activity, readily available market quotations, yield, quality, coupon rate, maturity, type of issue, trading characteristics, call features, credit rates and other observable inputs.

The Company determines transfers between fair value hierarchy levels at the end of the reporting period. There were no transfers in or out of the levels during the six months ended June 30, 2017.

Changes in fair values of the investments are recorded in the Company's consolidated statements of income as investment income (loss).

Property and Equipment

Property and equipment, consisting of leasehold improvements, computer equipment, furniture, and fixtures, are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated lives of the assets.

Revenue Recognition – General

The Company earns substantially all of its revenue from investment advisory and fund administration services. Investment advisory and administration fees, generally calculated as a percentage of assets under management ("AUM"), are recorded as revenue as services are performed. In addition to fixed fees based on a percentage of AUM, certain client accounts also provide periodic variable fees. Total revenue from the Funds was $28.6 million and $25.0 million for the three months ended June 30, 2017 and June 30, 2016, respectively. Total revenue from the Funds was $56.8 million and $48.1 million for the six months ended June 30, 2017 and June 30, 2016, respectively.

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Revenue Recognition – Variable Fees

The Company manages certain client accounts that provide for variable fees. These fees are calculated based on client investment results over rolling five-year periods. The Company records variable fees at the end of the contract measurement period. No variable fees were earned during the three and six months ended June 30, 2017 or 2016. The table below shows AUM subject to variable fees and the amount of variable fees that would be recognized based upon current investment results as of June 30, 2017:

	As of June 30, 2017	
	AUM subject to variable fees	Unearned variable fees
Contractual Period Ends:		
Quarter Ended December 31, 2018	$103,521,667	$1,094,275
Quarter Ended September 30, 2019	32,229,439	573,503
Quarter Ended March 31, 2020	11,139,838	—
Quarter Ended September 30, 2021	254,475,082	1,446,794
Total	$401,366,026	$3,114,572

The contractual end dates highlight the time remaining until the variable fees are scheduled to be earned. The amount of variable fees that would be recognized based upon investment results as of June 30, 2017 will increase or decrease based on future client investment results through the contractual period end. There can be no assurance that the unearned amounts will ultimately be earned.

Revenue Recognition – Mutual Fund Administration

DHCM has an administrative and transfer agency services agreement with the Funds under which DHCM performs certain services for each Fund. These services include mutual fund administration, fund accounting, transfer agency and other related functions. For performing these services each Fund pays DHCM a fee, which is calculated using an annual rate times the average daily net assets of each respective share class.

The Funds have selected and contractually engaged certain vendors to fulfill various services to benefit the Funds' shareholders or to satisfy regulatory requirements of the Funds. These services include, among others, required shareholder mailings, federal and state registrations, and legal and audit services. DHCM, in fulfilling a portion of its role under the administration agreement with the Funds, acts as agent to pay these obligations of the Funds. Each vendor is independently responsible for fulfillment of the services it has been engaged to provide and negotiates fees and terms with the management and board of trustees of the Funds. The fee that each Fund pays to DHCM is reviewed annually by the Funds' board of trustees and specifically takes into account the contractual expenses that DHCM pays on behalf of the Funds. As a result, DHCM is not involved in the delivery or pricing of these services and bears no risk related to these services. Revenue has been recorded net of these Fund related expenses, in accordance with FASB ASC 605-45, Revenue Recognition – Principal Agent Considerations. In addition, DHCM advances the upfront commissions that are paid to brokers who sell Class C shares of the Funds. These advances are capitalized and amortized over 12 months to correspond with the repayments DHCM receives from the principal underwriter to recoup this commission advancement.

Prior to the sale of Beacon Hill, the Company, through Beacon Hill, had underwriting and administrative service agreements with certain clients, including registered mutual funds. The fee arrangements varied from client to client based upon services provided and have been recorded as revenue under mutual fund administration on the Company's consolidated statements of income. Part of Beacon Hill's role as underwriter was to act as an agent on behalf of its mutual fund clients to receive 12b-1/service fees and commission revenue and facilitate the payment of those fees and commissions to third parties who provide services to the funds and their shareholders. The majority of 12b-1/service fees were paid to independent third parties and the remainder were retained by the Company as reimbursement for expenses the Company had incurred. The amounts of 12b-1/service fees and commissions were determined by each mutual fund client, and Beacon Hill bore no financial risk related to these services. As a result, 12b-1/service fees and commission revenue was recorded net of the expense payments to third parties, in accordance with the appropriate accounting treatment for this agency relationship.

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Mutual fund administration gross and net revenue are summarized below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Mutual fund administration:				
Administration revenue, gross	$6,465,152	$7,350,583	$12,874,949	$14,111,452
12b-1/service fees and commission revenue received from fund clients	—	2,801,257	—	5,426,648
12b-1/service fees and commission expense payments to third parties	—	(2,500,742)	—	(4,829,232)
Fund related expense	(3,489,399)	(3,553,932)	(6,638,351)	(6,821,995)
Revenue, net of related expenses	2,975,753	4,097,166	6,236,598	7,886,873
DHCM C-Share financing:				
Broker commission advance repayments	100,576	207,599	214,047	400,909
Broker commission amortization	(92,112)	(188,412)	(192,332)	(400,725)
Financing activity, net	8,464	19,187	21,715	184
Mutual fund administration revenue, net	$2,984,217	$4,116,353	$6,258,313	$7,887,057

Mutual fund administrative net revenue from the Funds was $3.0 million for both the three months ended June 30, 2017 and June 30, 2016. Mutual fund administrative net revenue from the Funds was $6.3 million and $5.8 million for the six months ended June 30, 2017 and June 30, 2016, respectively.

Income Taxes

The Company accounts for current and deferred income taxes through an asset and liability approach. Deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company is subject to examination by federal and applicable state and local jurisdictions for various tax periods. The Company’s income tax positions are based on research and interpretations of the income tax laws and rulings in each of the jurisdictions in which it does business. Due to the subjectivity of interpretations of laws and rulings in each jurisdiction, the differences and interplay in tax laws among those jurisdictions, as well as the inherent uncertainty in estimating the final resolution of complex tax audit matters, the Company’s estimates of income tax liabilities may differ from actual payments or assessments. The Company regularly assesses its position with regard to tax exposures and records liabilities for these uncertain tax positions and related interest and penalties, if any, according to the principles of FASB ASC 740, Income Taxes. As of June 30, 2017, the Company had not recorded any liability for uncertain tax positions. The Company records interest and penalties, if any, within income tax expense on the income statement.

Earnings Per Share

Basic earnings per share (“EPS”) excludes dilution and is computed by dividing net income by the weighted average number of Common Shares outstanding for the period, which includes participating securities. Diluted EPS reflects the potential dilution of EPS due to unvested restricted stock units. See Note 8.

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Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers", which supersedes existing accounting standards for revenue recognition and creates a single framework. ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This standard also specifies the accounting for certain costs to obtain or fulfill a contract with a customer. This ASU will supersede much of the existing revenue recognition guidance in GAAP and is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period, and requires either a retrospective or a modified retrospective approach to adoption. Early application is permitted for the first interim period within annual reporting periods beginning after December 15, 2016. The Company is currently assessing the impact of this standard on its consolidated financial statements and related disclosures, as well as the transition methods.

In February 2016, the FASB issued ASU 2016-02, "Leases", which, among other things, requires lessees to recognize most leases on-balance sheet. This will increase the reported assets and liabilities of lessees - in some cases significantly. Lessor accounting remains substantially similar to current GAAP. ASU 2016-02 supersedes Topic 840, Leases. ASU 2016-02 is effective for annual and interim periods in fiscal years beginning after December 15, 2018. ASU 2016-02 mandates a modified retrospective transition method for all entities. The Company is currently assessing the impact of this standard on its consolidated financial statements and related disclosures.

Note 3 Investment Portfolio

As of June 30, 2017, the Company held investments (excluding money market funds, which are included with cash and cash equivalents) worth $126.0 million. The following table summarizes the carrying value of these investments as of June 30, 2017 and December 31, 2016:

	As of	
	June 30, 2017	December 31, 2016
Trading investments:		
Securities held in Consolidated Funds[(a)]	$63,590,205	$57,355,471
Company sponsored investments	33,923,196	9,322,118
Company sponsored equity method investments	28,514,426	41,338,046
Total Investment portfolio	$126,027,827	$108,015,635

(a) Of the securities held in the Consolidated Funds as of June 30, 2017, $43.2 million were held directly by the Company and $20.4 million were held by noncontrolling shareholders. Of the securities held in the Consolidated Funds as of December 31, 2016, $42.6 million were held directly by the Company and $14.7 million were held by noncontrolling shareholders.

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As of June 30, 2017, our equity method investees consisted of the Diamond Hill High Yield Fund, the Diamond Hill Research Opportunities Fund, DHGF, and DHIEF and our ownership percentages in these funds were 45%, 22%, 95%, and 30%, respectively. The Company's equity method investments consist of cash, marketable equity securities and fixed income securities. The following table includes the condensed summary financial information from the Company's equity method investments as of and for the period ended June 30, 2017:

	As of June 30, 2017
Total assets	$129,172,742
Total liabilities	34,386,878
Net assets	94,785,864
DHCM's portion of net assets	28,514,426

	For the Three Months Ended June 30, 2017	For the Six Months Ended June 30, 2017
Investment income	$727,295	$1,521,561
Expenses	281,612	565,202
Net realized gains	1,605,052	2,571,725
Net change in unrealized appreciation/depreciation	1,100,299	3,614,185
Net income	3,151,034	7,142,269
DHCM's portion of net income	942,574	2,048,339

Note 4 Line of Credit

The Company has an uncommitted Line of Credit Agreement (the "Credit Agreement") with a commercial bank that matures in November of 2017 and permits the Company to borrow up to $25.0 million. Borrowings under the Credit Agreement bear interest at a rate equal to LIBOR plus 1.50%. The Company has not borrowed under the Credit Agreement as of and for the period ended June 30, 2017. No interest is payable on the unused portion of the Credit Agreement.

The proceeds of the Credit Agreement may be used by the Company and its subsidiaries for ongoing working capital needs, to seed new investment strategies and other general corporate purposes. The Credit Agreement contains representations, warranties and covenants that are customary for agreements of this type.

Note 5 Compensation Plans

Share-Based Payment Transactions

The Company issues restricted stock units and restricted stock awards (collectively, "Restricted Stock") under the 2014 Equity and Cash Incentive Plan ("2014 Plan"). Restricted stock units represent shares which may be issued in the future, whereas restricted stock awards represent common shares issued and outstanding upon grant subject to vesting restrictions. The following table represents a roll-forward of outstanding Restricted Stock and related activity during the six months ended June 30, 2017: