WisdomTree Investments, Inc.
Form 10-Q
August 09, 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 June 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	**13-3487784**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
245 Park Avenue, 35th Floor New York, New York	**10167**
(Address of principal executive officers)	**(Zip Code)**

212-801-2080

(Registrant s Telephone Number, Including Area Code)

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

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

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 (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

As of August 1, 2018, there were 153,079,030 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 June 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 tern 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.

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PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WisdomTree Investments, Inc. and Subsidiaries

Consolidated Balance Sheets

(In Thousands, Except Per Share Amounts)

	June 30, 2018 (Unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 70,744	$ 54,193
Securities owned, at fair value	3,719	66,294
Securities held-to-maturity		1,000
Accounts receivable	27,329	21,309
Income taxes receivable		6,978
Prepaid expenses	6,545	3,550
Other current assets	194	1,007
Total current assets	108,531	154,331
Fixed assets, net	10,028	10,693
Note receivable, net (Note 8)	24,588	18,748
Indemnification receivable (Note 20)	28,339	
Securities held-to-maturity	20,229	20,299
Deferred tax assets, net	2,024	1,050
Investments, carried at cost (Note 9)	35,187	35,187
Goodwill (Note 22)	85,856	1,799
Intangible assets (Note 22)	613,227	12,085
Other noncurrent assets	2,428	793
Total assets	$ 930,437	$ 254,985
Liabilities and stockholders equity		
Liabilities		
Current liabilities:		
Fund management and administration payable	$ 22,002	$ 20,099
Compensation and benefits payable	13,664	28,053
Deferred consideration gold payments (Note 11)	11,378	
Income taxes payable	1,252	
Securities sold, but not yet purchased, at fair value	2,026	950
Payable to ETFS Capital Limited (Note 3)	7,033	

Accounts payable and other liabilities	9,366	8,246
Total current liabilities	66,721	57,348
Long-term debt (Note 12)	193,407	
Deferred consideration gold payments (Note 11)	151,470	
Deferred rent payable	4,608	4,686
Other noncurrent liabilities (Note 20)	28,339	
Total liabilities	444,545	62,034
Preferred stock Series A Non-Voting Convertible, par value $0.01; 14.750 shares authorized, issued and outstanding (Note 13)	132,569	
Commitments and Contingencies (Note 14)		
Stockholders equity		
Preferred stock, par value $0.01; 2,000 shares authorized:		
Common stock, par value $0.01; 250,000 shares authorized; issued and outstanding: 153,142 and 136,996 at June 30, 2018 and December 31, 2017, respectively	1,531	1,370
Additional paid-in capital	359,066	216,006
Accumulated other comprehensive income	461	291
Accumulated deficit	(7,735)	(24,716)
Total stockholders equity	353,323	192,951
Total liabilities and stockholders equity	$ 930,437	$ 254,985

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

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WisdomTree Investments, Inc. and Subsidiaries

Consolidated Statements of Operations

(In Thousands, Except Per Share Amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Operating Revenues:				
Advisory fees	$ 73,778	$ 55,856	$ 132,234	$ 108,884
Other income	997	386	1,445	725
Total revenues	74,775	56,242	133,679	109,609
Operating Expenses:				
Compensation and benefits	19,301	18,421	38,133	36,295
Fund management and administration	14,621	10,112	25,533	19,712
Marketing and advertising	3,778	3,825	6,973	7,362
Sales and business development	4,503	3,389	8,316	6,351
Contractual gold payments (Note 11)	2,715		2,715	
Professional and consulting fees	1,560	1,221	3,196	2,779
Occupancy, communications and equipment	1,574	1,371	2,937	2,724
Depreciation and amortization	337	352	692	689
Third-party distribution fees	1,666	670	3,391	1,602
Acquisition-related costs (Note 3)	7,928		9,990	
Other	2,261	1,842	4,051	3,466
Total expenses	60,244	41,203	105,927	80,980
Operating income	14,531	15,039	27,752	28,629
Other Income/(Expenses):				
Interest expense	(2,356)		(2,356)	
Gain on revaluation of deferred consideration gold payments (Note 11)	9,898		9,898	
Interest income	612	641	1,574	1,225
Settlement gain		6,909		6,909
Other gains and losses, net	(501)	(364)	(762)	284
Income before taxes	22,184	22,225	36,106	37,047
Income tax expense	5,460	10,120	9,958	18,062
Net income	$ 16,724	$ 12,105	$ 26,148	$ 18,985
Net income per share basic	$ 0.10	$ 0.09	$ 0.17	$ 0.14

Net income per share diluted	$	0.10	$	0.09	$	0.17	$	0.14
Weighted-average common shares basic		149,056		134,557		142,230		134,472
Weighted-average common shares diluted		163,346		135,574		149,979		135,613
Cash dividends declared per common share	$	0.03	$	0.08	$	0.06	$	0.16

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

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WisdomTree Investments, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

(In Thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Net income	$ 16,724	$ 12,105	$ 26,148	$ 18,985
Other comprehensive (loss)/income				
Change in unrealized gains/(losses) on available-for-sale debt securities, net of tax	17	(31)	477	(134)
Foreign currency translation adjustment	(719)	194	(307)	439
Other comprehensive (loss)/income	(702)	163	170	305
Comprehensive income	$ 16,022	$ 12,268	$ 26,318	$ 19,290

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

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WisdomTree Investments, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(In Thousands)

(Unaudited)

	Six Months Ended June 30, 2018	2017
Cash flows from operating activities:		
Net income	$ 26,148	$ 18,985
Adjustments to reconcile net income to net cash provided by operating activities:		
Advisory fees paid in gold and other precious metals	(11,033)	
Contractual gold payments	2,715	
Gain on revaluation of deferred consideration gold payments	(9,898)	
Stock-based compensation	6,838	6,951
Deferred income taxes	(1,055)	5,890
Paid-in-kind interest income (Note 8)	(840)	
Settlement gain		(6,909)
Amortization of credit facility issuance costs	637	
Depreciation and amortization	692	689
Other	834	301
Changes in operating assets and liabilities, net of the effects of the ETFS Acquisition:		
Securities owned, at fair value	(2,028)	1,148
Accounts receivable	2,871	(1,671)
Income taxes receivable/payable	8,109	2,217
Prepaid expenses	(1,669)	(1,405)
Gold and other precious metals	8,930	
Other assets	975	143
Acquisition payable		(3,542)
Fund management and administration payable	(380)	(729)
Compensation and benefits payable	(21,170)	(3,958)
Securities sold, but not yet purchased, at fair value	1,077	(1,222)
Payable to ETFS Capital Limited	222	
Accounts payable and other liabilities	(2,961)	395
Net cash provided by operating activities	9,014	17,283
Cash flows from investing activities:		
Purchase of fixed assets	(34)	(220)
Purchase of securities held-to-maturity		(759)
Purchase of debt securities available-for-sale		(38,680)
Purchase of investments		(5,000)
Funding of AdvisorEngine note receivable (Note 8)	(5,000)	
Proceeds from held-to-maturity securities maturing or called prior to maturity	1,063	2,102

Proceeds from sales and maturities of debt securities available-for-sale	64,498	46,065
Cash paid ETFS Acquisition, net of cash acquired (Note 3)	(233,172)	
Net cash (used in)/provided by investing activities	(172,645)	3,508
Cash flows from financing activities:		
Dividends paid	(9,167)	(21,872)
Shares repurchased	(1,006)	(3,693)
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	139	42
Net cash provided by/(used in) financing activities	181,095	(25,523)
(Decrease)/increase in cash flow due to changes in foreign exchange rate	(913)	624
Net increase/(decrease) in cash and cash equivalents	16,551	(4,108)
Cash and cash equivalents beginning of period	54,193	92,722
Cash and cash equivalents end of period	$ 70,744	$ 88,614
Supplemental disclosure of cash flow information:		
Cash paid for taxes	$ 2,841	$ 9,708
Cash paid for interest	$ 1,241	$

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 ManJer, BML and WML.

WisdomTree Japan Inc. (WTJ) is a Japan based company registered with Japan s Ministry of Finance that serves the institutional market selling U.S. listed WisdomTree ETFs in Japan. In July 2018, the Company determined to restructure its distribution strategy in Japan. As a result, the Company will close WTJ and anticipates expanding its existing relationship with a third party to manage distribution of WisdomTree ETFs in Japan.

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 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.

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.

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.

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

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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 six months ended June 30, 2017, which had no effect on previously reported net income.

Operating Revenues:	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Advisory fees (previously reported)	$ 56,114	$ 109,376
Other ETP fees reclassified to Other income	(258)	(492)
Advisory fees (currently reported)	$ 55,856	$ 108,884
Settlement gain (previously reported)	$ 6,909	$ 6,909
Reclassify to Other Income/(Expenses)	(6,909)	(6,909)
Settlement gain (currently reported)	$	$
Other income (previously reported)	$ 405	$ 1,742
Other ETP fees reclassified from Advisory fees	258	492
Interest income reclassified to Other Income/(Expenses)	(641)	(1,225)
Realized and unrealized losses reclassified to Other gains and losses, net	364	519
Miscellaneous other income reclassified to Other gains and losses, net		(803)
Other income (currently reported)	$ 386	$ 725
Total revenues (currently reported)	**$ 56,242**	**$ 109,609**
Other Income/(Expenses):		
Interest income reclassified from operating revenues	$ 641	$ 1,225
Settlement gain reclassified from operating revenues	$ 6,909	$ 6,909
Other gains and losses, net (previously reported)	$	$
Realized and unrealized losses reclassified from operating revenues	(364)	(519)

Miscellaneous other income reclassified from operating revenues				803
Other gains and losses, net (currently reported)	$	(364)	$	284

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.

Foreign Currency Translation

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

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 30th (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 30th. 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 30th, including intangible assets arising from the ETFS Acquisition (See Note 3).

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 5). 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 13) 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. 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).

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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.

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.

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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.

Preliminary 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. A preliminary allocation of the consideration transferred is presented below based on information currently available and includes the Company s preliminary valuation of the fair value of tangible and intangible assets acquired and liabilities assumed.

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

Purchase price		
Preferred Shares issued		14,750
Conversion ratio		1,000
Common stock equivalents		14,750,000
Common Shares issued		15,250,000
Total shares issued		30,000,000
WisdomTree stock price[(1)]	$	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
Purchase price		523,000
Deferred consideration (See Note 11)		172,746
Total	**$**	**695,746**
Preliminary allocation of consideration		

Cash and cash equivalents		19,828
Receivables and other current assets		14,069
Intangible assets[2]		601,247
Other current liabilities		(23,455)
Fair value of net assets acquired		611,689
Preliminary goodwill resulting from the ETFS Acquisition [3]	**$**	**84,057**

(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) Preliminary 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.

The Company has until August 31, 2018 to satisfy itself with the opening balance sheet delivered by ETFS Capital. Pursuant to Clause 4.2 of the Share Sale Agreement, if the Completion Working Capital Amount (as defined) is greater than the Target Working Capital Amount (as defined), then the Company will owe ETFS Capital the excess amount. At June 30, 2018, this excess is $7,033 which is recorded as a payable to ETFS Capital on the Company s consolidated balance sheet. Any changes to the opening balance sheet may result in an adjustment to the amount owed to ETFS Capital, or alternatively, goodwill. All other elements of the purchase price allocation are finalized.

Acquisition-Related Costs

During the three and six months ended June 30, 2018, the Company incurred acquisition-related costs associated with the ETFS Acquisition of $7,928 and $9,990, respectively, which 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 June 30, 2018:

Revenues: $22,934

Income before taxes: $18,102 (including a gain on revaluation of deferred consideration of $9,898)

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues	$ 78,025	$ 76,718	$ 157,796	$ 149,410
Net income	$ 23,274	$ 15,554	$ 34,517	$ 17,451

Included within the proforma financial information above is a gain/(loss) on revaluation of deferred consideration of $8,326 and $319 for the three months ended June 30, 2018 and 2017, respectively, and $5,771 and ($8,039) for the six months ended June 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.

4. Cash and Cash Equivalents

Cash and cash equivalents of approximately $31,805 and $24,103 at June 30, 2018 and December 31, 2017, respectively, were held at one financial institution. At June 30, 2018 and December 31, 2017, cash equivalents were approximately $4,701 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:

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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 six months ended June 2018 and 2017 there were no transfers between Levels 1, 2 and 3.

	June 30, 2018			
	Total	Level 1	Level 2	Level 3
Assets:				
Recurring fair value measurements:				
Cash and cash equivalents	$ 70,744	$ 70,744	$	$
Securities owned, at fair value	3,719	3,719		
Total	$ 74,463	$ 74,463		$
Non-recurring fair value measurements:				
AdvisorEngine Inc. Option[1]	$ 3,278	$	$	$ 3,278
Thesys Group, Inc. Series Y preferred stock[2]	6,909			6,909
Total	$ 10,187	$	$	$ 10,187
Liabilities:				
Recurring fair value measurements:				
Deferred consideration (Note 11)	$ 162,848	$	$	$ 162,848
Securities sold, but not yet purchased	2,026	2,026		
Total	$ 164,874	$ 2,026	$	$ 162,848

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	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Assets:				
Recurring fair value measurements:				
Cash and cash equivalents	$ 54,193	$ 54,193	$	$
Securities owned, at fair value	66,294	1,691	64,603	
Total	$ 120,487	$ 55,884	$ 64,603	$
Non-recurring fair value measurements:				
AdvisorEngine Inc. Option[(1)]	$ 3,278			$ 3,278
Thesys Group, Inc. Series Y preferred stock[(2)]	6,909			6,909
Total	$ 10,187	$	$	$ 10,187
Liabilities:				
Recurring fair value measurements:				
Securities sold, but not yet purchased	$ 950	$ 950	$	$
Total	$ 950	$ 950	$	$

(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 is measured using forward-looking gold prices ranging from $1,256 per ounce to $2,839 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 Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Deferred consideration (See Note 11)				
Beginning balance[1]	$ 172,746	$	$ 172,746	$
Net realized losses/(gains)[2]	2,715		2,715	
Net unrealized losses/(gains)[3]	(9,898)		(9,898)	
Settlements	(2,715)		(2,715)	
Ending balance	$ 162,848	$	$ 162,848	$

(1) Arose in connection with the completion of the ETFS Acquisition on April 11, 2018 (See Note 3).
(2) Recorded as contractual gold payments 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.

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6. Securities Owned/Sold but Not Yet Purchased

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

	June 30, 2018	December 31, 2017
Securities Owned		
Trading securities	$ 3,719	$ 1,691
Available-for-sale debt securities		64,603
Total	$ 3,719	$ 66,294
Securities Sold, but not yet Purchased		
Trading securities	$ 2,026	$ 950
Available-for-sale debt securities		
Total	$ 2,026	$ 950

Available-for-Sale Debt Securities

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

	June 30, 2018	December 31, 2017
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 six months ended June 30, 2018, the Company received $4,000 and $64,498, respectively, of proceeds from the sale and maturity of available-for-sale securities and recognized gross realized losses of $23 and $739, respectively.

During the three and six months ended June 30, 2017, the Company received $25,065 and $46,065, respectively, of proceeds from the sale and maturity of available-for-sale securities and recognized gross realized losses of $236 and $412, 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:

	June 30, 2018	December 31, 2017
Federal agency debt instruments (amortized cost)	$ 20,229	$ 21,299

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

	June 30, 2018	December 31, 2017
Cost/amortized cost	$ 20,229	$ 21,299
Gross unrealized gains	5	9
Gross unrealized losses	(1,950)	(1,257)
Fair value	$ 18,284	$ 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 June 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:

	June 30, 2018	December 31, 2017
Due within one year	$	$ 1,000
Due one year through five years	6	11
Due five years through ten years	6,025	6,027
Due over ten years	14,198	14,261
Total	$ 20,229	$ 21,299

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 (of which $27,000 is currently funded) (See Note 9). 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:

	June 30, 2018	December 31, 2017
Note receivable (face value)	$ 27,000	$ 22,000
Less: Original issue discount (OID), unamortized	(2,970)	(3,252)
Plus: PIK interest	558	
Total note receivable, net	$ 24,588	$ 18,748
Commitment remaining	$ 3,000	$ 8,000

During the three and six months ended June 30, 2018, the Company recognized interest income of $421 and $840, respectively, which included OID amortization and accrued PIK interest. The Company determined that an allowance

for credit loss was not necessary at June 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 June 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.

The Company s remaining commitment to provide working capital to AdvisorEngine is $3,000 at June 30, 2018 pursuant to the terms of the note. The additional funding is scheduled to be provided on September 30, 2018 if no event of default (as defined) has occurred and is continuing.

9. Investments, Carried at Cost

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

	June 30, 2018	December 31, 2017
AdvisorEngine Preferred stock	$ 25,000	$ 25,000
AdvisorEngine Option	3,278	3,278
Thesys Group, Inc. (Thesys).	6,909	6,909
Total	$ 35,187	$ 35,187

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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 June 30, 2018 or December 31, 2017 and there were no observable price changes during the three and six months ended June 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 (See Note 8). 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 June 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 Thesys 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 Thesys valuation (or new valuation if Thesys completes a qualified financing, as defined, within two years). If a claim is brought against Thesys 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 June 30, 2018 or December 31, 2017 and there were no observable price changes during the three and six months ended June 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.

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10. Fixed Assets, net

The following table summarizes fixed assets:

	June 30, 2018	December 31, 2017
Equipment	$ 2,031	$ 1,879
Furniture and fixtures	2,391	2,449
Leasehold improvements	10,882	11,037
Less: accumulated depreciation and amortization	(5,276)	(4,672)
Total	$ 10,028	$ 10,693

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 $162,848 at April 11, 2018 (date of acquisition) and June 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 June 30, 2018 were $11,378 and $151,470, respectively.

During the three months ended June 30, 2018, the Company recognized Contractual Gold Payments expense of $2,715 arising from the fixed payments of physical gold bullion of 2,085 ounces (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), as well as a gain on the revaluation of deferred consideration of $9,898 due to changes in gold prices.

See Note 5 for a reconciliation of changes in the deferred consideration balance for the three months ended June 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:

	June 30, 2018	
	Term Loan	Revolver
Amount borrowed	$ 200,000	$
Unamortized issuance costs	(6,593)	1,460
Carrying amount	$ 193,407	$ 1,460
Effective interest rate[(1)]	4.92%	n/a

(1) Includes amortization of issuance costs.

During the three months ended June 30, 2018, the Company recognized $2,356 of interest expense on the Credit Facility. Unamortized issuance costs of $1,460 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:

Fiscal Quarter Ending	Total Leverage Ratio
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.

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:

	June 30, 2018
Issuance of Preferred Shares	$ 132,750
Less: Issuance costs	(181)
Preferred Shares carrying value	$ 132,569

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 months ended June 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 June 30, 2018 and 2017 were approximately $1,289 and $1,030, respectively, and for the six months ended June 30, 2018 and 2017 were $2,316 and $2,150, respectively.

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

Remainder of 2018	$ 2,432
2019	4,332
2020	3,915
2021	3,088
2022 and thereafter	21,300
Total	$ 35,067

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AdvisorEngine

At June 30, 2018, the Company had a commitment to provide $3,000 of additional working capital to AdvisorEngine which is scheduled to be provided on September 30, 2018 if no event of default (as defined) has occurred and is continuing (See Note 8).

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):

	June 30, 2018	December 31, 2017
Carrying Amount Assets		
Preferred stock	$ 25,000	$ 25,000
Note receivable unsecured	24,588	18,748
Option	3,278	3,278
Total carrying amount Assets	$ 52,866	$ 47,026
Maximum exposure to loss	$ 55,866	$ 55,026

The Company has a remaining commitment to provide working capital to AdvisorEngine of $3,000 at June 30, 2018 pursuant to the terms of the unsecured promissory note (See Note 8). The additional funding is scheduled to be provided on September 30, 2018 if no event of default (as defined) has occurred or is continuing.

16. Revenues from Contracts with Customers

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

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Revenues from contracts with customers:		
Advisory fees	$ 73,778	$ 132,234
Other	997	1,445
Total operating revenues	$ 74,775	$ 133,679

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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.

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:

	June 30, 2018	December 31, 2017
Receivable from WTT	$ 17,035	$ 19,433
Receivable from ETFS Issuers	8,369	
Receivable from BI and WTI	957	979
Receivable from WTCS	110	97
Receivable from WTAMC	137	87

Total	$ 26,608	$ 20,596

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2018	**2017**	**2018**	**2017**
Advisory services provided to WTT	$ 52,591	$ 53,311	$ 107,792	$ 103,767
Advisory services provided to ETFS Issuers	17,720		17,720	
Advisory services provided to BI and WTI	2,724	2,125	5,351	4,046
Advisory services provided to WTCS	340	330	656	900
Advisory services provided to WTAMC	403	90	715	171
Total	$ 73,778	$ 55,856	$ 132,234	$ 108,884

The Company also has investments in certain WisdomTree ETFs of approximately $2,588 and $1,691 at June 30, 2018 and December 31, 2017, respectively. Losses for the three and six months ended June 30, 2018 and 2017 were less than $100.

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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.

Stock-based compensation for the three months ended June 30, 2018 and 2017 was $3,529 and $3,530, respectively, and for the six months ended June 30, 2018 and 2017 was $6,838 and $6,951, respectively.

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

	June 30, 2018	
	Unrecognized Stock-Based Compensation	Average Remaining Vesting Period (Years)
Employees and directors restricted stock awards	$ 19,646	1.85

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

	Stock Options	Restricted Stock Awards	Restricted Stock Units
Balance at April 1, 2018	985,537	2,319,057	12,096
Granted		173,203	
Exercised/vested	(10,000)	(145,383)	
Forfeitures		(14,931)	
Balance at June 30, 2018	975,537	2,331,946	12,096

19. Earnings Per Share

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

Basic Earnings per Share	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Net income	$ 16,724	$ 12,105	$ 26,148	$ 18,985
Less: Income distributed to participating securities	(513)	(178)	(584)	(348)
Less: Undistributed income allocable to participating securities	(1,101)	(19)	(999)	
Net income available to common stockholders	$ 15,110	$ 11,908	$ 24,565	$ 18,637
Weighted average common shares (in thousands)	149,056	134,557	142,230	134,472
Basic earnings per share	$ 0.10	$ 0.09	$ 0.17	$ 0.14

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Diluted Earnings per Share	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Net income	$ 16,724	$ 12,105	$ 26,148	$ 18,985
Weighted Average Diluted Shares (in thousands):				
Weighted average common shares	149,056	134,557	142,230	134,472
Dilutive effect of common stock equivalents	14,290	1,017	7,749	1,141
Weighted average diluted shares	163,346	135,574	149,979	135,613
Diluted earnings per share	$ 0.10	$ 0.09	$ 0.17	$ 0.14

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 869,288 and 1,951,683 common stock equivalents from its computation of diluted earnings per share for the three months ended June 30, 2018 and 2017, respectively, and 1,140,659 and 1,780,397 common stock equivalents from its computation of diluted earnings per share for the six months ended June 30, 2018 and 2017, respectively, as they were determined to be anti-dilutive.

20. Income Taxes

Effective Income Tax Rate Three and Six Months Ended June 30, 2018

The Company s estimated effective income tax rate for the three and six months ended June 30, 2018 of 24.6% and 27.6%, respectively, resulted in income tax expense of $5,460 and $9,958, respectively. The Company s tax rate differs from the federal statutory tax rate of 21% primarily due to non-deductible acquisition-related costs, a valuation allowance on foreign net operating losses and state and local income taxes, partly offset by the gain on revaluation of deferred consideration and a lower tax rate on foreign earnings. The gain on revaluation is not adjusted for income taxes as the obligation was assumed by a wholly-owned subsidiary of ours that is based in Jersey, a jurisdiction where the Company is subject to a zero percent tax rate.

Effective Income Tax Rate Three and Six Months Ended June 30, 2017

The Company s estimated effective income tax rate for the three months ended June 30, 2017 of 45.5% resulted in income tax expense of $10,120. 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 six months ended June 30, 2017 of 48.8% resulted in income tax expense of $18,062. 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 June 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 $5,137 at June 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.

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Deferred Tax Assets

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

	June 30, 2018	December 31, 2017
Deferred tax assets:		
NOLs Foreign	$ 5,137	$ 3,841
Stock-based compensation	2,034	1,474
Deferred rent liability	1,233	1,257
NOLs U.S.	779	909
Accrued expenses	1,410	526
Other	298	488
Deferred tax assets	10,891	8,495
Deferred tax liabilities:		
Unrealized gains	1,718	1,718
Fixed assets	1,527	1,498
Goodwill and intangible assets	485	388
Deferred tax liabilities	3,730	3,604
Total deferred tax assets less deferred tax liabilities	7,161	4,891
Less: valuation allowance	(5,137)	(3,841)
Deferred tax assets, net	$ 2,024	$ 1,050

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.

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

	Total	Unrecognized Tax Benefits	Interest and Penalties

Balance on January 1, 2018	$	$	$
Accrued in connection with the ETFS Acquisition	30,466	25,631	4,835
Increases	37		37
Foreign currency translation[1]	(2,164)	(1,820)	(344)
Balance at June 30, 2018	$ 28,339	$ 23,811	$ 4,528

(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 $28,339 at June 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 June 30, 2018, there were $23,811 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 June 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.

During the three and six months ended June 30, 2018, the Company repurchased 26,717 shares and 87,225 shares of its common stock, respectively, under this program for an aggregate cost of $272 and $1,006, respectively.

During the three and six months ended June 30, 2017, the Company repurchased 7,967 shares and 354,496 shares of its common stock, respectively, under this program for an aggregate cost of $65 and $3,693, respectively.

As of June 30, 2018, $87,608 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 30th. Goodwill allocated to the European Business reporting unit is tested annually for impairment on November 30th.

	Reporting Unit		
	European Business[1]	U.S. Business	Total
Balance at January 1, 2018	$	$ 1,799	$ 1,799
Increases/(decreases)	84,057		84,057
Balance at June 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.

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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.

Intangible Assets (Indefinite-Lived)

	Advisory Agreements (ETFS)	Advisory Agreements (Questrade AUM)	Advisory Agreement (GCC)	Total
Balance at January 1, 2018	$	$ 2,132	$ 9,953	$ 12,085
Foreign currency translation		(105)		(105)
Other increases/(decreases)	601,247			601,247
Balance at June 30, 2018	$ 601,247	$ 2,027	$ 9,953	$ 613,227

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 30th 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 30th 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 30th 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
U.S. Business Segment				
Operating revenues				
Advisory fees	$ 52,931	$ 53,641	$ 108,449	$ 104,667
Other income	162	128	309	231
Total operating revenues	$ 53,093	$ 53,769	$ 108,758	$ 104,898
Total operating expenses	$ (42,638)	$ (35,748)	$ (81,668)	$ (70,178)
Other income/(expenses)				
Interest expense	$ (173)	$	$ (173)	$
Interest income	612	641	1,574	1,225
Settlement gain		6,909		6,909
Other gains and losses, net	(66)	(261)	(292)	364
Total other income/(expenses)	$ 373	$ 7,289	$ 1,109	$ 8,498
Total income before taxes (U.S. Business Segment)	$ 10,828	$ 25,310	$ 28,199	$ 43,218
International Business Segment [(1)]				
Operating revenues				
Advisory fees	$ 20,847	$ 2,215	$ 23,785	$ 4,217
Other income	835	258	1,136	494
Total operating revenues	$ 21,682	$ 2,473	$ 24,921	$ 4,711
Total operating expenses	$ (17,606)	$ (5,455)	$ (24,259)	$ (10,802)
Other income/(expenses)				
Interest expense	$ (2,183)	$	$ (2,183)	$
Interest income				
Gain on revaluation of deferred consideration	9,898		9,898	
Other gains and losses, net	(435)	(103)	(470)	(80)
Total other income/(expenses)	$ 7,280	$ (103)	$ 7,245	$ (80)
Total income/(loss) before taxes (International Business Segment)	$ 11,356	$ (3,085)	$ 7,907	$ (6,171)
Income/(loss) before taxes				
U.S. Business segment	$ 10,828	$ 25,310	$ 28,199	$ 43,218

International Business segment	11,356	(3,085)	7,907	(6,171)
Total income before taxes	**$ 22,184**	**$ 22,225**	**$ 36,106**	**$ 37,047**

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, other than the matter below.

Restructuring of Distribution Strategy in Japan

As previously disclosed in Note 1, in July 2018, the Company determined to restructure its distribution strategy in Japan. As a result, the Company will close WTJ and anticipates expanding its existing relationship with a third party to manage distribution of WisdomTree ETFs in Japan. During the three months ended June 30, 2018 and 2017, WTJ reported an operating loss of $1,125 and $1,232, respectively. During the six months ended June 30, 2018 and 2017, WTJ reported an operating loss of $2,357 and $2,365, respectively.

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 $60.0 billion globally as of June 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.

Industry Developments

Rule 6c-11

On June 28, 2018, the SEC proposed Rule 6c-11 under the Investment Company Act of 1940. If adopted, the proposal would, among other things, (i) allow most ETFs to operate without first obtaining exemptive relief, which would reduce the time and costs needed to bring products to market; (ii) provide greater flexibility with respect to aspects of ETF operations than exists under exemptive relief issued in recent years, including the use of custom baskets for creation and redemption transactions; and (iii) require additional disclosures regarding ETFs trading costs, including certain bid-ask spread information. The proposal also would rescind existing exemptive relief for ETFs that are eligible to rely on the proposed rule. The SEC has requested public comments on the proposed rule, which are due within 60 days after the proposal is published in the Federal Register. While the rule as proposed would level the playing field for new entrants in some respects, we believe that the barriers to success in the ETF industry remain unaffected and we are well positioned to take advantage of the flexibility that the rule would provide.

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Assets Under Management

WisdomTree ETPs

The following chart sets forth the asset mix of our WisdomTree ETPs as of June 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 June 30, 2018, approximately 19% of our U.S. 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 can provide no assurance that the negative historical correlation between the AUM of ETFS and the AUM of our two largest ETFs will continue 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 by approximately 0.02% to 0.48% due to the ETFS Acquisition and change in product mix.

Market Environment

Overview

U.S. and international markets advanced in the second quarter as earnings momentum and positive economic data overshadowed U.S. trade policies towards China and its other trading partners. However, escalating trade tensions coupled with a strengthening U.S. dollar resulted in sharp declines in emerging markets. The dollar s strength, as well as the rising rate environment also negatively impacted the price of gold.

The S&P 500 rose 3.4%, MSCI EAFE (local currency) rose 3.9%, MSCI Emerging Markets Index (U.S. dollar) declined 7.7% and gold prices declined 5.4% during the second quarter. In addition, the European and Japan equity markets both appreciated with the MSCI EMU Index rising 3.2% and MSCI Japan Index rising 2.0%, respectively, in local currency terms for the quarter. Also, the U.S. dollar strengthened 4.2% versus the Yen and 5.4% versus the Euro during the second quarter.

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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 second quarter of 2018 were $55.8 billion. U.S. equity and fixed income gathered the majority of those flows.

Source: Bloomberg, Investment Company Institute, WisdomTree

Europe listed ETF Industry Flows

As the chart below reflects, Europe listed ETF net flows of $3.7 billion declined 85.1% as compared to the prior quarter. Commodity 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. Our U.S. Business includes our Japan sales office which engaged in selling our U.S. listed ETFs to Japanese institutions. In July 2018, we determined to restructure our distribution strategy in Japan. As a result, we will be closing the sales office and anticipate expanding our existing relationship with a third party to manage distribution of WisdomTree s ETFs in Japan. The International Business segment includes our European business (which now includes ETFS) and our Canadian business.

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Our Operating and Financial Results

U.S. Business Segment

Our U.S. listed ETFs AUM decreased from $42.9 billion as of March 31, 2018 to $41.3 billion as of June 30, 2018 primarily due to net outflows from our two largest ETFs, DXJ and HEDJ and market depreciation.

International Business Segment

Our international ETFs increased from $2.1 billion at March 31, 2018 to $18.6 billion at June 30, 2018 primarily due to the $17.6 billion of AUM acquired in connection with the ETFS Acquisition and partly offset by market depreciation.

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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 33.0% from the three months ended June 30, 2017 to $74.8 million due to an increase in our average global AUM. Our average global AUM increased primarily due the $17.6 billion of AUM acquired in connection with the ETFS Acquisition as well as market appreciation and 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 46.2% from the three months ended June 30, 2017 to $60.2 million. Operating expenses increased primarily due to the ETFS Acquisition. In addition, included in the three months ended June 30, 2018 were acquisition-related costs of $7.9 million.

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 38.2% from the three months ended June 30, 2017 to $16.7 million.

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Key Operating Statistics

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

	Three Months Ended			Six Months Ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
U.S. LISTED ETFs (in millions)					
Beginning of period assets	$ 42,886	$ 46,827	$ 41,940	$ 46,827	$ 40,164
Inflows/(outflows)	(1,231)	(2,167)	605	(3,398)	547
Market appreciation/(depreciation)	(315)	(1,774)	638	(2,089)	2,472
End of period assets	$ 41,340	$ 42,886	$ 43,183	$ 41,340	$ 43,183
Average assets during the period	$ 43,464	$ 45,618	$ 42,961	$ 44,541	$ 42,128
Average ETF advisory fee during the period	0.49%	0.49%	0.50%	0.49%	0.50%
Revenue days	91	90	91	181	181
Number of ETFs end of the period	81	81	90	81	90
INTERNATIONAL LISTED ETPs (in millions)					
Beginning of period assets	$ 2,075	$ 2,110	$ 1,424	$ 2,110	$ 1,093
Assets acquired	17,641			17,641	
Inflows/(outflows)	(25)	(45)	163	(70)	487
Market appreciation/(depreciation)	(1,062)	10	(40)	(1,052)	(33)
End of period assets	$ 18,629	$ 2,075	$ 1,547	$ 18,629	$ 1,547
Average assets during the period	$ 17,837	$ 2,106	$ 1,446	$ 9,971	$ 1,363
Average ETP advisory fee during the period	0.47%	0.57%	0.61%	0.48%	0.62%
Revenue days	91	90	91	181	181
Number of ETPs end of period	445	99	93	445	93
PRODUCT CATEGORIES (in millions)					
International Developed Market Equity					
Beginning of period assets	$ 22,432	$ 25,950	$ 24,057	$ 25,950	$ 23,105
Inflows/(outflows)	(1,502)	(2,705)	125	(4,207)	(134)
Market appreciation/(depreciation)	(599)	(813)	465	(1,412)	1,676
End of period assets	$ 20,331	$ 22,432	$ 24,647	$ 20,331	$ 24,647
Average assets during the period	$ 22,455	$ 24,435	$ 24,794	$ 23,445	$ 24,282
Commodity & Currency					
Beginning of period assets	$ 416	$ 445	$ 519	$ 445	$ 564
Assets acquired	16,778			16,778	
Inflows/(outflows)	(99)	(28)	(44)	(127)	(86)
Market appreciation/(depreciation)	(928)	(1)	(11)	(929)	(14)
End of period assets	$ 16,167	$ 416	$ 464	$ 16,167	$ 464

Average assets during the period	$ 15,316		$	426	$	488		$ 7,871	$ 516
$	808.8	$	214.6	$	4.7	$ 2.9		$ 73.8	
Lender Services	33.9		16.5		0.8		3.3	(2.3)	
Financial Services	0.2		0.6		-		-	2.5	
Corporate and Other	15.3		17.1		0.9		0.8	(21.7)	
Total	$ 858.2		$ 248.8	$	6.4	$	7.0	$ 52.3	

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	Nine Months Ended September 30, (In millions)				
	Operating Revenue	Salaries and Employee Benefits	Depreciation	Amortization of Intangible Assets	Income Before Taxes
2005					
Title Operations	$ 2,567.5	$ 711.4	$ 15.8	$ 8.2	$ 226.2
Lender Services	146.9	56.7	2.7	11.4	(15.1)
Financial Services	0.8	1.8	-	0.2	9.4
Corporate and Other	77.0	53.4	3.4	2.5	(61.1)
Total	$ 2,792.2	$ 823.3	$ 21.9	$ 22.3	$ 159.4
2004					
Title Operations	$ 2,371.7	$ 625.4	$ 13.8	$ 5.4	$ 233.9
Lender Services	111.5	48.1	2.5	9.9	2.3
Financial Services	0.5	1.6	-	0.2	7.0
Corporate and Other	38.2	43.9	2.9	1.8	(63.8)
Total	$ 2,521.9	$ 719.0	$ 19.2	$ 17.3	$ 179.4

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

Overview

Our long-term goal is to enhance our position as one of the largest providers of real estate transaction services. To accomplish this objective, we have expanded operations through internal growth and selective strategic acquisitions. Our business operations are organized under three primary business segments: Title Operations, Lender Services and Financial Services. Other business operations not required to be reported separately are reported in a category called Corporate and Other. A description of these segments, including certain key factors impacting these businesses such as seasonality, are provided in our Annual Report on Form 10-K for the year ended December 31, 2004 as filed with the Securities and Exchange Commission on March 11, 2005.

Critical Accounting Estimates

The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts of certain assets, liabilities, revenue, expenses and related disclosures surrounding contingencies and commitments. A summary of our significant critical accounting estimates can be found in Management’s Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2004 as filed with the Securities and Exchange Commission. Actual results could differ from these estimates.

Results of Operations

Operating Revenue

The following table provides a summary of operating revenue for the three and nine-month periods ended September 30, 2005 and 2004:

	Three Months Ended September 30,			
	2005		2004	
	(Dollars in millions)			
Title Operations				
Direct Operations	$ 452.0	44.3%	$ 351.9	41.0%
Agency Operations	503.6	49.3	456.9	53.2
	955.6	93.6	808.8	94.2
Lender Services	36.5	3.6	33.9	4.0
Financial Services	0.4	-	0.2	-
Corporate and Other	28.7	2.8	15.3	1.8
Total	$ 1,021.2	100.0%	$ 858.2	100.0%

	Nine Months Ended September 30,			
	2005		2004	
	(Dollars in millions)			
Title Operations				
Direct Operations	$ 1,192.8	42.7%	$ 1,041.7	41.3%
Agency Operations	1,374.7	49.3	1,330.0	52.8
	2,567.5	92.0	2,371.7	94.1
Lender Services	146.9	5.3	111.5	4.4
Financial Services	0.8	-	0.5	-
Corporate and Other	77.0	2.7	38.2	1.5
Total	$ 2,792.2	100.0%	$ 2,521.9	100.0%

Title Operations - Operating revenue from direct title operations for third quarter 2005 increased $100.1 million, or 28.4%, over third quarter 2004 and $151.1 million, or 14.5%, for the first nine months of 2005 over the comparable period in 2004. Acquisitions completed since September 30, 2004 (“Acquisitions”) contributed approximately $7.7 million to the increase in operating revenue from direct operations for third quarter 2005 and approximately $35.7 million for the first nine months of 2005.

During third quarter 2005 and the first nine months of 2005, we continued to experience strong commercial and buy/sell activity. Title insurance revenue from commercial operations, which we have typically defined as being premiums from policies providing coverage over $1 million in liability, was $253.0 million for third quarter 2005, an increase of 31.8% over third quarter 2004. For the nine months ended September 30, 2005, refinance activity was relatively

flat over the prior year period but increased significantly in third quarter 2005 relative to third quarter 2004 as interest rates remained low during the quarter.

Closed orders for third quarter 2005 for our direct title operations were 268,700, with an average fee per closed order of approximately $1,682, compared to 213,800 for third quarter 2004, with an average fee per closed order of approximately $1,646. Closed orders for the first nine months of 2005 were 710,700, with an average fee per closed order of approximately $1,678, compared to 695,800 for the first nine months of 2004, with an average fee per closed order of approximately $1,497.

Operating revenue from agency title operations increased $46.7 million, or 10.2%, for third quarter 2005 over third quarter 2004 due to growth in the agency business, particularly in certain southeastern and western markets. Operating revenue from agency title operations for the first nine months of 2005 increased $44.7 million, or 3.4%, over the comparable prior-year period. This increase was due to growth in the agency business partially offset by acquisitions of title agencies reflected as direct revenue in the first half of 2005 and reduced levels of refinancing activity.

Lender Services - Operating revenue in the Lender Services segment for third quarter 2005 increased $2.6 million, or 7.7%, compared to third quarter 2004. Acquisitions contributed approximately $5.7 million to the increase in operating revenue for third quarter 2005. After the impact of Acquisitions, operating revenue for third quarter 2005 was negatively impacted by the loss of three tax customers in the tax and flood business during the first half of 2005 and lower volume in the credit services business, partially offset by strong volume in the default services business.

Operating revenue in the Lender Services segment for the first nine months of 2005 increased $35.4 million, or 31.7%, compared to the first nine months of 2004. Acquisitions and the recognition of deferred revenue from terminated tax servicing contracts in our tax and flood business contributed approximately $18.0 million and $32.7 million to the increase in operating revenue for the first nine months of 2005, respectively. After the impact of these items, operating revenue for the first nine months of 2005 was negatively impacted by lower volume in the credit services and tax and flood businesses partially offset by increased volume in the default services business.

Corporate and Other - Operating revenue in the Corporate and Other segment increased by approximately $13.4 million, or 87.6%, in third quarter 2005 over third quarter 2004. Operating revenue in the Corporate and Other segment for the first nine months of 2005 increased $38.8 million, or 101.6%, compared to the first nine months of 2004. Acquisitions contributed approximately $7.1 million to the increase in third quarter 2005 and $27.5 million in the first nine months of 2005. After the impact of Acquisitions, operating revenue was favorably impacted by an increase in revenue in the commercial appraisal and assessment businesses.

Investment and Other Income

Investment and other income increased $4.1 million, or 22.4%, in third quarter 2005 and $11.1 million, or 21.4%, in the first nine months of 2005 over the comparable periods in 2004. The Financial Services segment generated $2.6 million and $5.8 million of additional investment income for the quarter and nine months ended September 30, 2005 compared to the quarter and nine months ended September 30, 2004, which was due to an increase in the portfolio of loans receivable and investments. The remaining increase was due to higher interest income for the quarter and nine months ended September 30, 2005 over the comparable prior periods related to yields and higher invested balances on our remaining investment portfolio.

Net Realized Investment Gains

Net realized investment gains were $1.9 million in third quarter 2005 and $3.0 million in the first nine months of 2005 compared to $4.2 million in the first nine months of 2004. There were no net realized investment gains in third quarter 2004.

Salaries and Employee Benefits

The following table provides a summary of salary and employee benefit costs for the three and nine-month periods ended September 30, 2005 and 2004:

	Three Months Ended September 30,			
	2005		2004	
	(Dollars in millions)			
Title Operations	$ 255.4	87.2%	$ 214.6	86.3%
Lender Services	18.5	6.3	16.5	6.6
Financial Services	0.6	0.2	0.6	0.2
Corporate and Other	18.6	6.3	17.1	6.9
Total	$ 293.1	100.0%	$ 248.8	100.0%

	Nine Months Ended September 30,					
	2005			2004		
	(Dollars in millions)					
Title Operations	$	711.4	86.4%	$	625.4	87.0%
Lender Services		56.7	6.9		48.1	6.7
Financial Services		1.8	0.2		1.6	0.2
Corporate and Other		53.4	6.5		43.9	6.1
Total	$	823.3	100.0%	$	719.0	100.0%

Title Operations - Title Operations salary and employee benefit costs increased by $40.8 million, or 19.0%, in third quarter 2005 over third quarter 2004. The addition of personnel as the result of Acquisitions increased salary and employee benefit costs by $4.2 million for third quarter 2005. Average full time equivalent ("FTE") counts for the Title Operations segment were 11,405 (including 313 related to Acquisitions) in third quarter 2005 versus 10,330 in third quarter 2004. Salary and benefit costs increased by $86.0 million, or 13.8%, in the first nine months of 2005 over the first nine months of 2004. The impact of Acquisitions increased salary and benefit costs by $21.0 million in the first nine months of 2005. FTEs for the Title Operations segment were 10,888 (including 429 related to Acquisitions) in the first nine months of 2005 versus 10,073 in the first nine months of 2004. The remaining increase in salary and employee benefit costs was primarily due to the increase in open orders in third quarter 2005 and the first nine months of 2005.

Lender Services - Lender Services salaries and employee benefits for third quarter 2005 were $18.5 million, an increase of $2.0 million over third quarter 2004, and $56.7 million for the first nine months of 2005, an increase of $8.6 million over the first nine months of 2004. Acquisitions contributed approximately $2.8 million to the increase for third quarter 2005 and $9.0 million for the first nine months of 2005. After the impact of Acquisitions, salaries and employee benefit costs decreased due to reductions in FTE counts in the credit services and tax and flood businesses partially offset by increased FTEs in the default services business.

Financial Services - Financial Services salary and employee benefit costs were flat for third quarter 2005 compared with third quarter 2004 and increased $0.2 million in the first nine months of 2005 over the comparable period in 2004. This increase was primarily due to additional staffing requirements resulting from business growth.

Corporate and Other - Corporate and Other salary and employee benefit costs increased $1.5 million, or 8.8%, in third quarter 2005 over third quarter 2004 and $9.5 million, or 21.6%, in the first nine months of 2005 over the first nine months of 2004. Incremental compensation

expense from Acquisitions was approximately $2.4 million in third quarter 2005 and $8.9 million in the first nine months of 2005.

Agent Commissions

The following table provides a summary of agent commissions and related revenue in the Title Operations segment for the three and nine-month periods ended September 30, 2005 and 2004:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(Dollars in millions)			
Agent commissions	$ 402.7	$ 366.1	$ 1,098.9	$ 1,065.2
Agent revenue	$ 503.6	$ 456.9	$ 1,374.7	$ 1,330.0
% Retained by agents	80.0%	80.1%	80.0%	80.1%

The commission rate varies by the geographic area in which the commission was paid and by individual agent agreement.

Provision for Policy and Contract Claims for Title Insurance

We review our claims experience quarterly, and in conjunction with our outside actuaries, evaluate the adequacy of our claims reserve. We consider factors such as historical timing of claims reported and historical timing of claims paid over the period in which policies are effective against actual experience by year of policy issue to determine the amount of claims liability required for each year for which policies are outstanding. We also consider the impact of current trends in the marketplace, including refinance activity, which may shorten the time period a policy is outstanding, bankruptcies and individual large claims attributable to any particular period to determine the expected liability associated with each year.

During 2004, claims rates associated with policies issued between 2000 and 2002 had a trend of being higher than our historical trends. As a result, we increased our reserves associated with those policy issue years. This trend was mitigated somewhat by decreased claim activity in policies issued during the 1990s, where claims appear to be below historical rates. We believe that such decreases have been due, in part, to refinance activity that has resulted in reduced claims experience. Trends experienced with each of the policy issue years, with the exception of 2004, continued during third quarter 2005.

During the first nine months of 2005, our loss experience was negatively impacted by a large claim of approximately $7.4 million related to a policy issued in 2004. While a reserve for

a portion of this claim had been provided for at the end of 2004, we were required to provide additional reserves to mitigate the impact that this claim had on overall loss reserves. Since there is an extended time period for which we are liable, slight changes in current claims experience can result in a significant impact in the amount of liability required for potential Incurred But Not Reported (“IBNR”) claims. Based on our review of the underlying claims data and trends therein, we have provided for claims losses using approximately 5.7% and 5.5% of title insurance revenue for the first nine months of 2005 and 2004, respectively. We believe that we have reserved appropriately for all reported and IBNR claims at September 30, 2005 based on the results of the actuarial evaluation and evaluation of any known trend.

Write off of Intangible and Other Long-Lived Assets

The write off of intangible and other long-lived assets was $37.6 million for third quarter and the first nine months of 2005. In third quarter 2005, we wrote off a portion of the customer relationship intangible related to the acquisition of our tax and flood business in 2003. For further details, see Note 7, “Write off of Intangible and Other Long-Lived Assets” of the Notes to Consolidated Financial Statements in Part I, Item I of this report.

Amortization

Amortization expense increased by $0.6 million in third quarter 2005 compared to third quarter 2004 and by $5.0 million in the first nine months of 2005 compared to the first nine months of 2004 as the result of the acquisitions made in 2005 and 2004. During 2005 and 2004, we acquired businesses with an initial purchase price of $195.1 million. We are amortizing the intangible assets acquired as part of these businesses over their estimated useful lives.

Interest Expense

Interest expense increased by $2.4 million in third quarter 2005 compared to third quarter 2004 and by $5.6 million in the first nine months of 2005 compared to the first nine months of 2004. The increase was primarily related to increases in interest-bearing deposits and borrowings at Centennial Bank and convertible debt issued in May 2004. We anticipate that interest expense will continue to exceed prior period levels throughout 2005.

Premium Taxes

Insurance companies are generally not subject to state income or franchise taxes. However, they are subject to a “premium tax” on certain operating revenue, depending on the state. The tax rates and amounts that are subject to tax vary from state to state. Premium taxes as a percentage of our total title insurance revenue were approximately 1.3% in the third quarters and nine months ended September 30, 2005 and 2004.

General, Administrative and Other

The following table provides a summary of general, administrative and other costs for the three and nine-month periods ended September 30, 2005 and 2004:

	Three Months Ended September 30,			
	2005		2004	
	(Dollars in millions)			
Title Operations	$ 126.5	76.4%	$ 107.7	76.8%
Lender Services	17.8	10.8	16.8	12.0
Financial Services	0.3	0.2	0.3	0.2
Corporate and Other	20.9	12.6	15.5	11.0
Total	$ 165.5	100.0%	$ 140.3	100.0%

	Nine Months Ended September 30,			
	2005		2004	
	(Dollars in millions)			
Title Operations	$ 382.7	76.0%	$ 316.7	76.1%
Lender Services	57.1	11.3	51.8	12.5
Financial Services	1.2	0.2	1.4	0.3
Corporate and Other	62.9	12.5	46.2	11.1
Total	$ 503.9	100.0%	$ 416.1	100.0%

Title Operations - General and administrative expenses for our Title Operations segment increased by $18.8 million, or 17.5%, in third quarter 2005 over third quarter 2004 and $66.0 million, or 20.8%, in the first nine months of 2005 over the first nine months of 2004. Of this increase, incremental costs from Acquisitions contributed $1.7 million for third quarter 2005 and $6.4 million for the first nine months of 2005. The increase in general and administrative expenses for third quarter 2005 over the corresponding period in 2004 was due to increased order volume. The increase in general and administrative expenses for the first nine months of 2005 was due to increased legal costs of $35.1 million and increased order volume. The increased legal costs included previously announced charges for legal reserves for regulatory matters of $19.0 million and settlement of a class action lawsuit for $10.3 million.

Lender Services - Lender Services general and administrative expenses increased by $1.0 million in third quarter 2005 and $5.3 million in the first nine months over the comparable periods in 2004. These increases were primarily due to the Acquisitions.

Financial Services - Financial Services general and administrative costs were flat in third quarter 2005 compared to third quarter 2004 and decreased by $0.2 million in the first nine months of 2005 over the first nine months of 2004. The decrease for the first nine months of 2005 was due to lower levels of loan loss provisions.

Corporate and Other - Corporate and Other general and administrative expenses increased by $5.4 million, or 34.8%, in third quarter 2005 over the comparable period in 2004 and $16.7 million, or 36.1%, in first nine months of 2005 over the comparable period in 2004. The increase in general and administrative expenses for third quarter 2005 and the first nine months of 2005 were due to the impact of Acquisitions and the increase in revenue from commercial appraisal and assessment businesses.

Operating Income

Title Operations - Operating income before taxes for third quarter 2005 was $118.1 million compared to $73.8 million for third quarter 2004. As a percent of operating revenue, operating income before taxes was 12.4% for third quarter 2005 compared to 9.1% for third quarter 2004. Operating income before taxes for the first nine months of 2005 was $226.2 million compared to $233.9 million for the first nine months of 2004. As a percent of operating revenue, operating income before taxes was 8.8% for the first nine months of 2005 compared to 9.9% for the first nine months of 2004. Included in the results for the first nine months of 2005 were increased legal and regulatory costs of $35.1 million.

Lender Services - Operating income before taxes for third quarter 2005 was $(40.9) million compared to $(2.3) million for third quarter 2004. Operating income before taxes for the first nine months of 2005 was $(15.1) million compared to $2.3 million for first nine months of 2004. Included in the results for the third quarter and first nine months of 2005 was the $37.6 million for the write off of a portion of the customer relationship intangible asset from the acquisition of the tax and flood business. In addition, the first nine months of 2005 included the recognition of deferred revenue from terminated servicing contracts in our tax and flood business of $32.7 million.

We evaluate the results of our Lender Services segment on the basis of pretax income before net revenue deferrals and amortization (“PRBDA”). Adjusted operating revenue represents operating revenue adjusted for the impact of net revenue deferrals. PRBDA margin represents PRBDA divided by operating revenue adjusted for net revenue deferrals. PRBDA and PRBDA margin are not measures of performance defined by GAAP and should not be considered in isolation or as a substitute for operating income or cash flows provided by operating activities, which have been prepared in accordance with GAAP. PRBDA and PRBDA margin, as presented, may not be comparable to the calculation of similar titled measures reported by other companies. We believe that PRBDA and PRBDA margins provide useful information to investors because they are indicators of operating and cash flow performance for those businesses where we have life of loan servicing requirements, which have been burdened in the short run with amortization expense related to intangibles acquired with the businesses. While amortization expense is an operating expense under GAAP, these expenses represent the non-current allocation of intangible assets acquired in prior periods. Additionally, while net

revenue deferrals are a reduction of revenue and profits in the current period, these reductions represent a non-cash allocation of revenue to future periods for ongoing monitoring of certain of our flood and tax servicing products. Reconciliations of these financial measures to Lender Services operating results are as follows:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(Dollars in millions)			
Operating revenue	$ 36.5	$ 33.9	$ 146.9	$ 111.5
Change in net revenue deferrals	11.7	8.5	(0.9)	20.8
Adjusted operating revenue	48.2	42.4	146.0	132.3
Operating (loss) income before taxes	$ (40.9)	$ (2.3)	$ (15.1)	$ 2.3
Change in net revenue deferrals	11.7	8.5	(0.9)	20.8
Add back:				
Amortization expense	3.8	3.3	11.4	9.9
Write off of intangible and other long-lived assets	37.6	-	37.6	-
PRBDA	12.2	9.5	33.0	33.0
PRBDA to adjusted operating revenue margin	25.3%	22.4%	22.6%	24.9%

PRBDA was $12.2 million for third quarter 2005, a $2.7 million increase from third quarter 2004, and $33.0 million for the first nine months of 2005 and 2004. Net revenue deferrals included customer terminations in the tax and flood business of $32.7 million in the first nine months of 2005.

At the end of third quarter 2005, deferred revenue for Lender Services was $187.5 million, which will be recognized as income in future periods.

Financial Services - Operating income before taxes for the Financial Services segment was $3.7 million in third quarter 2005 compared to $2.5 million in third quarter 2004. Operating income before taxes was $9.4 million in the first nine months of 2005 compared to $7.0 million in the first nine months of 2004. These increases were due to growth in the loans receivable and investment portfolios, which exceeded the increase in interest-bearing liabilities.

Corporate and Other - Operating income before taxes for third quarter 2005 was $(18.3) million compared to $(21.7) million for third quarter 2004. Operating income before taxes for the first nine months of 2005 was $(61.1) million compared to $(63.8) million for the first nine

months of 2004. Acquisitions contributed $1.1 million to operating income before taxes for third quarter 2005 and $4.6 million to operating income before taxes for the first nine months of 2005.

Income Taxes

Our effective income tax rate, which includes a provision for state income and franchise taxes for non-insurance subsidiaries, was 37.6% for the first nine months of 2005 and 35.4% for the first nine months of 2004. The difference in the effective tax rate was due primarily to changes in the ratio of permanent differences to income before taxes and the mix of state taxes related to our non-insurance subsidiaries. We expect our annual effective tax rate to be 37.5% for 2005.

Net Income

We reported net income of $41.6 million or $2.31 per share on a diluted basis, for third quarter 2005, compared to a net income of $33.5 million, or $1.88 per share on a diluted basis, for third quarter 2004. We reported net income of $99.5 million, or $5.56 per share on a diluted basis, for the first nine months of 2005, compared to a net income of $115.9 million, or $6.31 per share on a diluted basis, for the first nine months of 2004. Adjusted net income was $64.2 million, or $3.57 per share on a diluted basis, for third quarter 2005 compared to $33.5 million, or $1.88 per share on a diluted basis, for third quarter 2004. Adjusted net income was $123.8 million or $6.92 per share on a diluted basis, for the first nine months of 2005 compared to $115.9 million, or $6.31 per share on a diluted basis, for the first nine months of 2004.

To supplement our consolidated financial statements presented on a GAAP basis, we use additional non-GAAP measures of operating revenue, income before income taxes, net income, and earnings per common share adjusted to exclude certain costs, expenses, gains or losses we believe appropriate to enhance an overall understanding of our past financial performance and also our prospects for the future. These adjustments to our GAAP results are made with the intent of providing both management and investors a more complete understanding of our underlying operational results and trends and our marketplace performance. In addition, these non-GAAP results are among the primary indicators management uses as a basis for planning and forecasting future periods. Adjusted operating revenue, income before income taxes, adjusted net income, and adjusted earnings per common share assuming dilution are not measures of performance defined by GAAP and should not be considered in isolation or as a substitute for operating revenue, income before income taxes, net income, or earnings per common share assuming dilution, which have been prepared in accordance with GAAP. Reconciliations of these financial measures to consolidated operating results are as follows:

Reconciliation of Non-GAAP Measures
(In millions)

	Quarter ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Operating revenue, as reported	$ 1,021.2	$ 858.2	$ 2,792.2	$ 2,521.9
Deduct:				
Recognition of deferred income	-	-	(32.7)	-
Adjusted operating revenue	1,021.2	858.2	2,759.5	2,521.9
Income before income taxes, as reported	$ 62.6	$ 52.3	$ 159.4	$ 179.4
Add back:				
Write off of intangible and other long-lived assets	37.6	-	37.6	-
Regulatory legal reserve	-	-	19.0	-
Settlement of class action suit	-	-	10.3	-
	37.6	-	66.9	-
Deduct:				
Recognition of deferred income	-	-	(32.7)	-
Adjusted income before income taxes	100.2	52.3	193.6	179.4
Net income, as reported	$ 41.6	$ 33.5	$ 99.5	$ 115.9
Add back:				
Write off of intangible and other long-lived assets	22.6	-	22.6	-
Regulatory legal reserve	-	-	14.6	-
Settlement of class action suit	-	-	6.7	-
	22.6	-	43.9	-
Deduct:				
Recognition of deferred income	-	-	(19.6)	-
Adjusted net income	64.2	33.5	123.8	115.9
Net income per common share assuming dilution, as reported	$ 2.31	$ 1.88	$ 5.56	$ 6.31
Add back:				
Write off of intangible and other long-lived assets	1.26	-	1.26	-
Regulatory legal reserve	-	-	0.82	-
Settlement of class action suit	-	-	0.37	-
	1.26	-	2.45	-
Deduct:				
Recognition of deferred income	-	-	(1.09)	-
Adjusted net income per common share assuming dilution	3.57	1.88	6.92	6.31

Liquidity and Capital Resources

Cash provided by operating activities was $267.5 million for the first nine months of 2005 and $171.0 million for the first nine months of 2004. The increase in cash provided by operating activities is due primarily to monetization of a deferred tax asset related to one of our acquisitions and the timing of payments of accounts payable and accrued expenses. The principal non-operating uses of cash for the nine-month periods ended September 30, 2005 and 2004 were acquisitions, capital expenditures, additions to the investment portfolio, loans receivable and the repurchase of common stock. Cash was $81.9 million and investments including short-term investments and fixed-maturity securities were $1,662.0 million at September 30, 2005.

We completed acquisitions totaling approximately $26.7 million during the first nine months of 2005 and $131.1 million during the first nine months of 2004. The 2005 and 2004 purchases were funded through cash from operations. We will continue to selectively evaluate additional acquisitions should attractive candidates be identified.

In April 2005, we filed a shelf registration on Form S-3 to register up to $400.0 million of our debt and/or equity securities for issuance from time to time as market conditions permit and financing needs arise.

In February 2004, the Board of Directors approved a one-year authorization program allocating $50.0 million to repurchase up to 1.25 million shares or 7% of our existing common stock over the following twelve months. During the first three quarters of 2004, we repurchased the entire 1.25 million authorized shares of our common stock at an average price of $39.44 per share. In December 2004, the Board of Directors approved a program expiring at the end of February 2006 which authorized the repurchase of up to 1.0 million additional shares at a cost not to exceed $60.0 million. During the first three quarters of 2005, we repurchased approximately 650,400 shares for $38.3 million at an average price of $58.87 per share.

In October 2005, the Board of Directors approved a program expiring at the end of July 2007 to repurchase up to an additional 1.25 million shares of our outstanding common stock.

Our industrial loan bank maintains an allowance for loan losses related to our loans receivable. During third quarter 2005, we did not experience a significant change in the underlying components of the allowance for loan losses or the balance in total. There have been no significant changes in the underlying rationale for management’s provision for loan losses or significant changes in asset quality.

Interest Rate Risk

The following table provides information about our financial instruments that are sensitive to changes in interest rates. For investment securities, the table presents principal cash flows and related weighted interest rates by expected maturity dates. Actual cash flows could differ from the expected amounts.

Interest Rate Sensitivity
Principal Amount by Expected Maturity
Average Interest Rate
(Dollars in millions)

	2005	2006	2007	2008	2009	2010 and After	Total	Fair Value
Assets:								
Taxable available-for-sale securities:								
Book value	$ 7.0	$ 43.1	$ 53.2	$ 70.3	$ 68.4	$ 405.1	$ 647.1	$ 649.7
Average yield	6.1%	5.0%	4.4%	4.2%	3.5%	2.1%	2.9%	
Non-taxable available-for-sale securities:								
Book value	3.6	11.1	9.9	27.7	17.2	362.6	432.1	444.3
Average yield	4.2%	4.1%	4.3%	4.3%	4.3%	4.4%	4.3%	
Loans Receivable*								
Book value	0.1	3.9	0.7	1.0	5.4	391.7	402.8	401.2
Average yield	12.5%	9.4%	9.2%	7.9%	7.9%	6.9%	6.8%	
Preferred stock:								
Book value	-	-	-	-	-	8.1	8.1	8.1
Average yield	-	-	-	-	-	3.4%	3.4%	

*Excludes reserves, discounts and other costs.

Long-term debt was $468.0 million at September 30, 2005, bearing interest at a weighted average rate of 4.65%. Additionally, interest-bearing passbook and certificate of deposit liabilities were $322.5 million at September 30, 2005, at an average rate of 3.73%.

Regulatory Investigations and Inquiries

We have received certain information requests and subpoenas from various state regulatory authorities relating to investigations of our business practices and the title insurance industry.

In 2004, the Office of the Attorney General of the State of New York (“NYAG”) initiated an investigation into the business practices of companies engaged in the title insurance business. We have received subpoenas and supplemental requests from the NYAG seeking information and documents related to its investigation of certain industry business practices, including, among other things, competitive market practices, the compensation of title insurance agents and producers by underwriters, the payment of potentially illegal rebates and captive reinsurance arrangements. The insurance department of the State of New York is also examining our reinsurance arrangements.

In addition, the insurance departments of various states have been making inquiries into the title industry's business practices. We have received letters of inquiry from the insurance departments of the states of North Carolina and Pennsylvania as part of their review of competitive market practices and agent compensation in the title insurance industry. The Connecticut department of insurance has issued letters of inquiry to us seeking information on our agent and producer commission practices and captive reinsurance arrangements. We have received letters of inquiry from the Hawaii insurance division to review the relationship between us, our producers and other participants in the real estate industry, including questions about agent commissions and potential illegal rebates. The California department of insurance is conducting examinations of our adherence to filed premium rates, claims handling practices, and captive reinsurance arrangements, has requested information on community development and investment and our California title plants, and has issued a data call. We have also received a request for information on captive reinsurance arrangements from the California department of real estate. On July 20, 2005, we announced that we reached an agreement with the California department of insurance to settle captive reinsurance and other regulatory matters. The Tennessee department of insurance has issued a requirement for the submission of an attestation regarding any finite reinsurance arrangements we may have in that state and a letter of inquiry regarding producer compensation arrangements and competitive market practices. In connection with its bi-annual rate hearing, we have received subpoenas from the Texas department of insurance seeking information regarding business practices, including captive reinsurance, that may have the effect of raising prices to Texas consumers. The Florida department of financial services is inquiring into affiliated business arrangements and has issued a data call. The Washington Insurance Commissioner is undertaking an investigation of captive reinsurance, potential illegal inducements and rebates by title insurance companies, and title insurance rates. The Colorado state attorney general and Colorado department of insurance are investigating captive reinsurance arrangements. The Colorado department of insurance is also investigating affiliated business arrangements. We have received an information request from the Massachusetts Attorney General regarding reinsurance and the title insurance market.

Additional states are specifically investigating captive reinsurance arrangements in the title insurance industry and we have received inquiries regarding those arrangements, in addition to the inquiries described above, from ten state departments of insurance or attorney generals. On September 8, 2005, we announced that we reached an agreement with the Arizona department of insurance to settle the captive reinsurance matter. We have also received a request for information from the U.S. Department of Housing and Urban Development in conjunction with its investigation involving various builders, lenders, and real estate brokers in connection with their participation in captive title reinsurance companies. During the period from the inception of our captive reinsurance programs in 1997 through 2004, we paid reinsurance premiums to the reinsurers totaling approximately $12 million. In February 2005, we announced that we intended to terminate our captive reinsurance arrangements despite our belief that we had operated the programs in accordance with applicable law. The revenues from these programs were not material to our results of operations.

In June 2005, we established reserves of $19 million to cover anticipated exposure to regulatory matters nationwide, an amount which includes the settlement with the California and Arizona departments of insurance.

We may receive additional subpoenas and/or requests for information in the future from state or federal government agencies. We will evaluate, and intend to cooperate in connection with, all such subpoenas and requests.

Based on the information known to management at this time, it is not possible to predict the outcome of the governmental inquiries and investigations into the title insurance industry's business practices or the market's response thereto. However, any material change in our business practices may have an adverse effect on our results of operations.

Forward-Looking and Cautionary Statements

Certain information contained in this Quarterly Report on Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Among other things, these statements relate to our financial condition, results of operation and future business plans, operations, opportunities and prospects. In addition, we and our representatives may from time to time make written or oral forward-looking statements, including statements contained in other filings with the Securities and Exchange Commission and in our reports to shareholders. These forward-looking statements are generally identified by the use of words such as we "expect,""believe,""anticipate,""estimate" or words of similar import. These forward-looking statements are based upon our current knowledge and assumptions about future events and involve risks and uncertainties that could cause actual results, performance or achievements to be materially different from any anticipated results, performance or achievements expressed or implied by such forward-looking statements. Further, any such statement is specifically qualified in its entirety by the cautionary statements set forth in the following paragraph.

Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include the following: (1) our results of operations and financial condition are susceptible to changes in mortgage interest rates and general economic conditions, (ii) our inability to manage successfully our acquisitions of complementary businesses could adversely affect our business, operating results and financial condition, (iii) competition in our industry affects our revenue, (iv) significant industry changes and new product and service introductions require timely and cost-effective responses, (v) we may not succeed in implementing our strategy of becoming a major provider of real estate transaction management services, (vi) our insurance and banking subsidiaries are subject to government regulation, and (vii) our litigation risks include substantial claims by large classes of claimants. For more details on factors that could affect expectations, see our Annual Report on Form 10-K for the year ended December 31, 2004, and other reports from time to time filed with or furnished to the Securities and Exchange Commission.

The foregoing list of important factors is not exclusive. We do not update any forward-looking statement that may be made from time to time by or on our behalf.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this Item is set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations - Interest Rate Risk" in Part I, Item 2 of this report. There are no other material changes to the disclosure on this matter made in our Annual Report on Form 10-K for the year ended December 31, 2004.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to provide assurance that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods required by the Securities and Exchange Commission. An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report was carried out under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer. Based on such evaluation, the aforementioned officers concluded that our disclosure controls and procedures were effective as of the end of such period. There was no change in our internal control over financial reporting that occurred during the quarter ended September 30, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information contained in Note 5 “Commitments and Contingencies” of the Notes to Consolidated Financial Statements filed as Part I, Item 1 of this Quarterly Report on Form 10-Q is incorporated herein by reference.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) The following table sets forth the details of purchases of common stock under the share-repurchase program and the Executive Voluntary Deferral Plan and Outside Directors Deferral Plan that occurred in third quarter 2005:

Calendar Month for which Shares Were Repurchased	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet Be Purchased Under the Plans
July 2005	25,000	$ 62.77	25,000	1,497,045
August 2005	245,000	$ 60.00	245,000	1,252,045
September 2005	210,000	$ 61.66	210,000	1,042,045

(1) The share repurchases in the above table are the result of two employee benefit plans and one publicly announced share purchase plan (the “2005 Plan”).

(2) The 2005 Plan was announced in December 2004 and provides for the purchase of up to 1.0 million shares or $60.0 million. The 2005 Plan will expire in February 2006 and replaces a similar plan established by the Board in February 2004.

(3) Purchases other than the 2005 Plan were made on behalf of a trust maintained by LandAmerica for the Executive Voluntary Deferral Plan and the Outside Directors Deferral Plan. For additional information on these plans, see the Notes to the Consolidated Financial Statements filed with our Annual Report on Form 10-K for the year ended December 31, 2004 as filed with the Securities and Exchange Commission.

ITEM 6. EXHIBITS

The following exhibits are filed as part of this report:

Exhibit No.	Document
3.1	Bylaws of LandAmerica Financial Group, Inc. (amended and restated October 26, 2005), incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, dated October 28, 2005, File No. 1-13990.
10.1	Form of Amendment to the form LandAmerica Financial Group, Inc. Restricted Stock Agreement, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, dated October 28, 2005, File No. 1-13990.
31.1	Rule 13a-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a) Certification of Chief Financial Officer
32.1	Statement of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
32.2	Statement of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350

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.

LANDAMERICA FINANCIAL GROUP, INC.
(Registrant)

Date: November 2, 2005

/s/ Christine R. Vlahcevic
Christine R. Vlahcevic
Senior Vice President-
Corporate Controller
(Principal Accounting Officer)

EXHIBIT INDEX

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