

DIAMOND HILL INVESTMENT GROUP INC

Form 10-Q

July 27, 2016

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United States

Securities and Exchange Commission

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2016

Commission file number 000-24498

DIAMOND HILL INVESTMENT GROUP, INC.

(Exact name of registrant as specified in its charter)

Ohio 65-0190407

(State of (I.R.S. Employer

incorporation) Identification No.)

325 John H. McConnell Blvd, Suite 200, Columbus, Ohio 43215

(Address of principal executive offices) (Zip Code)

(614) 255-3333

(Registrant's telephone number, including area code)

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

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

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

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Large accelerated filer Accelerated filer x

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes: No: x

The number of shares outstanding of the issuer's common stock, as of July 27, 2016, is 3,426,208 shares.

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PART I: FINANCIAL INFORMATION

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

	6/30/2016 (Unaudited)	12/31/2015
ASSETS		
Cash and cash equivalents	\$70,744,395	\$57,474,777
Investment portfolio	57,981,889	52,490,820
Accounts receivable	16,845,662	18,579,302
Prepaid expenses	1,661,141	1,780,105
Property and equipment, net of depreciation	4,188,057	4,253,361
Income taxes receivable	3,497,546	1,402,137
Deferred taxes	9,455,137	9,206,079
Total assets	\$164,373,827	\$145,186,581
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued expenses	\$6,502,832	\$7,651,324
Accrued incentive compensation	10,958,500	21,984,500
Deferred compensation	12,552,132	10,236,743
Total liabilities	30,013,464	39,872,567
Redeemable noncontrolling interest	5,745,386	—
Shareholders' equity		
Common stock, no par value 7,000,000 shares authorized; 3,425,389 issued and outstanding at June 30, 2016 (inclusive of 228,923 unvested shares); 3,414,338 issued and outstanding at December 31, 2015 (inclusive of 310,356 unvested shares)	110,115,374	102,536,527
Preferred stock, undesignated, 1,000,000 shares authorized and unissued	—	—
Deferred equity compensation	(22,552,883)	(19,294,784)
Retained earnings	41,052,486	22,072,271
Total shareholders' equity	128,614,977	105,314,014
Total liabilities and shareholders' equity	\$164,373,827	\$145,186,581
Book value per share	\$37.55	\$30.84

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
REVENUES:				
Investment advisory	\$28,553,082	\$27,018,876	\$55,239,867	\$52,419,412
Mutual fund administration, net	4,116,353	4,363,311	7,887,057	8,281,182
Total revenue	32,669,435	31,382,187	63,126,924	60,700,594
OPERATING EXPENSES:				
Compensation and related costs	13,381,347	12,667,426	25,780,056	25,452,206
General and administrative	2,575,941	2,583,567	5,061,100	4,577,113
Sales and marketing	1,061,046	1,160,451	2,054,168	1,770,152
Mutual fund administration	951,852	848,657	1,827,918	1,585,030
Total operating expenses	17,970,186	17,260,101	34,723,242	33,384,501
NET OPERATING INCOME	14,699,249	14,122,086	28,403,682	27,316,093
Investment income	692,666	457,340	1,439,888	1,802,023
INCOME BEFORE TAXES	15,391,915	14,579,426	29,843,570	29,118,116
Income tax expense	(5,624,808)	(5,401,304)	(10,796,584)	(10,427,372)
NET INCOME	9,767,107	9,178,122	19,046,986	18,690,744
Less: Net income attributable to redeemable noncontrolling interest	(52,555)	—	(66,771)	—
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$9,714,552	\$9,178,122	\$18,980,215	\$18,690,744
Earnings per share attributable to common shareholders				
Basic	\$2.85	\$2.79	\$5.58	\$5.75
Diluted	\$2.84	\$2.73	\$5.58	\$5.61
Weighted average shares outstanding				
Basic	3,410,751	3,287,751	3,399,740	3,253,144
Diluted	3,415,192	3,367,280	3,403,198	3,331,521
The accompanying notes are an integral part of these consolidated financial statements.				

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Diamond Hill Investment Group, Inc.

Consolidated Statements of Shareholders' Equity and Redeemable Noncontrolling Interest (unaudited)

	Shares Outstanding	Common Stock	Deferred Equity Compensation	Retained Earnings	Total	Redeemable Noncontrolling Interest
Balance at January 1, 2015	3,317,728	\$84,855,693	\$(12,566,133)	\$2,029,664	\$74,319,224	\$ —
Issuance of restricted stock grants	73,000	10,341,320	(10,341,320)	—	—	—
Amortization of restricted stock grants	—	—	3,309,999	—	3,309,999	—
Issuance of stock grants	27,192	3,826,458	—	—	3,826,458	—
Issuance of common stock related to 401k plan match	4,815	764,437	—	—	764,437	—
Net excess tax benefit from vested restricted stock grants	—	1,619,727	—	—	1,619,727	—
Shares withheld related to employee tax withholding	(23,063)	(3,235,603)	—	—	(3,235,603)	—
Forfeiture of restricted stock grants	(3,500)	(272,335)	272,335	—	—	—
Net income	—	—	—	18,690,744	18,690,744	—
Balance at June 30, 2015	3,396,172	\$97,899,697	\$(19,325,119)	\$20,720,408	\$99,294,986	\$ —
Balance at January 1, 2016	3,414,338	\$102,536,527	\$(19,294,784)	\$22,072,271	\$105,314,014	\$ —
Cumulative-effect adjustment from the adoption of ASU 2015-02 (Note 2)	—	—	—	—	—	4,031,756
Issuance of restricted stock grants	33,600	6,699,184	(6,699,184)	—	—	—
Amortization of restricted stock grants	—	—	3,235,146	—	3,235,146	—
Issuance of stock grants	21,940	3,879,431	—	—	3,879,431	—
Issuance of common stock related to 401k plan match	5,276	935,210	—	—	935,210	—
Tax benefit from dividend payments related to restricted stock grants	—	925,000	—	—	925,000	—
Net excess tax benefit from vested restricted stock grants	—	4,421,408	—	—	4,421,408	—
Shares withheld related to employee tax withholding	(48,165)	(9,075,447)	—	—	(9,075,447)	—
Forfeiture of restricted stock grants	(1,600)	(205,939)	205,939	—	—	—
Net income	—	—	—	18,980,215	18,980,215	66,771
Net issuance of ETF shares to noncontrolling shareholders	—	—	—	—	—	1,646,859
Balance at June 30, 2016	3,425,389	\$110,115,374	\$(22,552,883)	\$41,052,486	\$128,614,977	\$ 5,745,386

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

	Six Months Ended June 30, 2016		2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	\$ 19,046,986		\$ 18,690,744
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	334,327		279,024
Stock-based compensation	4,170,356		4,074,437
(Increase)/decrease in accounts receivable	1,733,640		(1,505,693)
Change in current income taxes	3,250,999		(1,566,748)
Change in deferred income taxes	(249,058)		(795,408)
Net investment income	(1,226,058)		(1,786,994)
Decrease in accrued incentive compensation	(7,146,569)		(3,411,792)
Increase in deferred compensation	2,315,389		4,532,517
Excess income tax benefit from stock-based compensation	(4,421,408)		(1,619,727)
Income tax benefit from dividends paid on restricted stock	(925,000)		—
Other changes in assets and liabilities	693,251		227,075
Net cash provided by operating activities	17,576,855		17,117,435
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(248,835)		(722,352)
Cost of seed capital investments purchased	(6,133,800)		(11,040,594)
Proceeds from sale of seed capital investments	6,510,550		3,492,995
Net cash provided by (used in) investing	127,915		(8,269,951)

activities

CASH FLOWS FROM
FINANCING
ACTIVITIES:

Value of shares withheld related to employee tax withholding	(9,075,447)	(3,235,604)
Excess income tax benefit from stock-based compensation	4,421,408		1,619,727	
Income tax benefit from dividends paid on restricted stock	925,000		—	
Net redemptions of redeemable noncontrolling interest	(706,113)	—	
Net cash used in financing activities	(4,435,152)	(1,615,877)
CASH AND CASH EQUIVALENTS				
Net change during the period	13,269,618		7,231,607	
At beginning of period	57,474,777		35,777,140	
At end of period	\$ 70,744,395		\$ 43,008,747	
Supplemental cash flow information:				
Income taxes paid	\$ 7,794,643		\$ 12,789,528	
Supplemental disclosure of non-cash transactions:				
Common stock issued as incentive compensation	\$ 3,879,431		\$ 3,826,458	
Charitable donation of corporate investments	1,729,735		1,401,202	
Cumulative-effect adjustment from the adoption of ASU 2015-02 (Note 2)	4,031,756		—	
Net issuance of ETF shares for marketable securities	2,254,210		—	

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

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Diamond Hill Investment Group, Inc.

Notes to Consolidated Financial Statements (unaudited)

Note 1 Business and Organization

Diamond Hill Investment Group, Inc. (the "Company"), an Ohio corporation, derives its consolidated revenues and net income from investment advisory and fund administration services. The Company has three operating subsidiaries. Diamond Hill Capital Management, Inc. ("DHCM"), an Ohio corporation, is a wholly owned subsidiary of the Company and a registered investment adviser. DHCM is the investment adviser to the Diamond Hill Funds (the "Funds"), a series of open-end mutual funds, private investment funds ("Private Funds"), an exchange traded fund (the "ETF"), and other institutional accounts. In addition, DHCM is administrator for the Funds.

Beacon Hill Fund Services, Inc. ("BHFS"), an Ohio corporation, is a wholly owned subsidiary of the Company. BHFS provides compliance, treasury, and other fund administration services to investment advisers and mutual funds. BHIL Distributors, Inc. ("BHIL"), an Ohio corporation, is a wholly owned subsidiary of BHFS. BHIL provides underwriting services to mutual funds. BHFS and BHIL collectively operate as "Beacon Hill". On June 15, 2016, the Company entered into a definitive agreement with Foreside Financial Group, LLC ("Foreside"), to sell BHIL and certain assets and liabilities of BHFS to Foreside. This transaction will result in the entirety of Beacon Hill's business being transferred to Foreside. The completion of the transaction is subject to customary closing conditions and although there can be no assurance, we expect the transaction to close on July 31, 2016. See Note 10.

Note 2 Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements as of June 30, 2016 and December 31, 2015, and for the three and six month periods ended June 30, 2016 and 2015, for Diamond Hill Investment Group, Inc. and its subsidiaries (referred to in these notes to the condensed consolidated financial statements as "the Company," "management," "we," "us," and "our") have been prepared in accordance with United States generally accepted accounting principles ("GAAP") and with the instructions to Form 10-Q and Article 10 of the Securities and Exchange Commission ("SEC") Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair statement of the financial condition and results of operations at the dates and for the interim periods presented, have been included. The results of operations for any interim period are not necessarily indicative of the results of operations to be expected for any full fiscal year. These unaudited condensed consolidated financial statements and footnotes should be read in conjunction with the audited consolidated financial statements of the Company included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 ("2015 Annual Report") as filed with the SEC.

Use of Estimates

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

Reclassification

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

Principles of Consolidation

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

The Company holds certain investments in the Funds and the ETF we advise for general corporate investment purposes and to provide seed capital for newly formed strategies. The Funds are organized in a series fund structure in which there are multiple mutual funds within one Trust. The Trust is an open-end investment company registered under the Investment Company Act of

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

In 2016, the Company consolidated the ETF as our ownership was greater than 50%. We adopted ASU 2015-02 utilizing the modified retrospective transition method and have recorded a cumulative-effect adjustment to equity of \$4.0 million as of January 1, 2016. Prior to the adoption of ASU 2015-02, we performed our analysis at the trust level and concluded we did not need to consolidate the Funds or the ETF as we owned less than 1% of the voting interest in the respective trusts.

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

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

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

The Company concluded DHGF was a variable interest entity ("VIE") as DHCM has disproportionately less voting interests than economic interests because the Company receives over 95% of the variability of DHGF, yet the Limited Partners have full power to remove the Company as the General Partner due to the existence of substantive kick-out rights. In addition, substantially all of the LPs' activities are conducted on behalf of the General Partner which has disproportionately few voting rights. The Company concluded we are not the primary beneficiary of DHGF as we lack the power to control the entity due to the existence of single-party kick-out rights where the limited partner has the unilateral ability to remove us as the General Partner without cause. DHCM's investment in DHGF is reported as a component of the Company's investment portfolio, valued at DHCM's proportionate interest in the net asset value ("NAV") of DHGF.

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

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

Redeemable Noncontrolling Interest

Redeemable noncontrolling interest represents third-party interests in the Company's consolidated ETF. This interest is redeemable at the option of the investors and therefore is not treated as permanent equity. Redeemable

noncontrolling interest is remeasured at redemption value which approximates the fair value each reporting period.

Segment Information

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

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Cash and Cash Equivalents

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

Accounts Receivable

Accounts receivable are recorded when they are due and are presented on the balance sheet net of any allowance for doubtful accounts. Accounts receivable are written off when they are determined to be uncollectible. Any allowance for doubtful accounts is estimated based on the Company's historical losses, existing conditions in the industry, and the financial stability of those individuals or entities that owe the receivable. No allowance for doubtful accounts was deemed necessary at June 30, 2016 or December 31, 2015. Accounts receivable from the Funds were \$9.2 million as of both June 30, 2016 and December 31, 2015.

Investments

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

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

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

Valuation of Investment Portfolio

Level 1 inputs are defined as fair values that use quoted prices in active markets for identical assets or liabilities. The following table summarizes the values of the Company's investments based upon Level 1 inputs as of June 30, 2016:

June 30, 2016

Level 1 Inputs \$102,624,785

Level 1 investments are all registered investment companies (mutual funds) and include, as of June 30, 2016, \$46.0 million of investments in third party money market mutual funds that the Company classifies as cash equivalents. In accordance with Subtopic 820-10, certain investments in limited partnerships that are measured at fair value using NAV as a practical expedient have not been classified in the fair value hierarchy. There were \$1.4 million of investments in limited partnerships that were measured at NAV at June 30, 2016. The Company determines transfers between fair value hierarchy levels at the end of the reporting period. There were no transfers in or out of the levels during the six months ended June 30, 2016.

Changes in fair values of the investments are recorded in the Consolidated Statements of Income as investment income.

Property and Equipment

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

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Revenue Recognition – General

The Company earns substantially all of its revenue from investment advisory and fund administration services. Investment advisory and administration fees, generally calculated as a percentage of assets under management ("AUM"), are recorded as revenue as services are performed. In addition to fixed fees based on a percentage of AUM, certain client accounts also provide periodic variable incentive fees. Investment advisory revenue from the Funds was \$22.0 million and \$20.0 million for the three months ended June 30, 2016 and June 30, 2015, respectively. Investment advisory revenue from the Funds was \$42.3 million and \$38.5 million for the six months ended June 30, 2016 and June 30, 2015, respectively.

Revenue Recognition – Variable Incentive Fees

The Company manages certain client accounts that provide for variable incentive fees. These fees are calculated based on client investment results over rolling five-year periods. The Company records variable incentive fees at the end of the contract measurement period. No variable incentive fees were earned during the three and six months ended June 30, 2016 or 2015. The table below shows AUM subject to variable incentive fees and the amount of variable incentive fees that would be recognized if the contracts were terminated as of June 30, 2016:

	As of June 30, 2016
AUM subject to variable incentive fees	\$548,212,294

	As of June 30, 2016
Contractual Period Ends:	
Quarter Ended June 30, 2017	\$—
Quarter Ended December 31, 2018	—
Quarter Ended September 30, 2019	180,471
Quarter Ended March 31, 2020	—
Total variable incentive fees that would be recognized if contract terminated	\$180,471

The contractual end dates highlight the time remaining until the variable incentive fees are scheduled to be earned. The amount of variable incentive fees that would be recognized if the contracts were terminated as of June 30, 2016 will increase or decrease based on future client investment results through the contractual period end. There can be no assurance that the above amounts will ultimately be earned.

Revenue Recognition – Mutual Fund Administration

DHCM has an administrative and transfer agency services agreement with the Funds under which DHCM performs certain services for each Fund. These services include mutual fund administration, fund accounting, transfer agency and other related functions. For performing these services each Fund pays DHCM a fee, which is calculated using an annual rate times the average daily net assets of each respective share class. For the first half of 2016 and the entire fiscal year 2015, the annual rate was 0.24% for Class A and C shares and 0.10% for Class Y shares. For the first half of 2016, the annual rate was 0.20% for Class I shares. In 2015, the rate for Class I shares was 0.21% beginning July 1, 2015 and 0.24% prior to July 1, 2015.

The Funds have selected and contractually engaged certain vendors to fulfill various services to benefit the Funds' shareholders or to satisfy regulatory requirements of the Funds. These services include, among others, required shareholder mailings, federal and state registrations, and legal and audit services. DHCM, in fulfilling a portion of its role under the administration agreement with the Funds, acts as agent to pay these obligations of the Funds. Each vendor is independently responsible for fulfillment of the services it has been engaged to provide and negotiates fees and terms with the management and board of trustees of the Funds. The fee that each Fund pays to DHCM is reviewed annually by the Funds' board of trustees and specifically takes into account the contractual expenses that DHCM pays

on behalf of the Funds. As a result, DHCM is not involved in the delivery or pricing of these services and bears no risk related to these services. Revenue has been recorded net of these Fund related expenses, in accordance with FASB ASC 605-45, Revenue Recognition – Principal Agent Considerations. In addition, DHCM advances the upfront commissions that are paid to brokers who sell Class C shares of the Funds. These advances are

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capitalized and amortized over 12 months to correspond with the repayments DHCM receives from the principal underwriter to recoup this commission advancement.

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

Mutual fund administration gross and net revenue are summarized below:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Mutual fund administration:				
Administration revenue, gross	\$7,350,583	\$6,883,451	\$14,111,452	\$13,263,411
12b-1/service fees and commission revenue received from fund clients	2,801,257	2,799,190	5,426,648	5,543,341
12b-1/service fees and commission expense payments to third parties	(2,500,742)	(2,418,508)	(4,829,232)	(4,792,371)
Fund related expense	(3,553,932)	(2,908,128)	(6,821,995)	(5,746,922)
Revenue, net of related expenses	4,097,166	4,356,005	7,886,873	8,267,459
DHCM C-Share financing:				
Broker commission advance repayments	207,599	247,922	400,909	499,281
Broker commission amortization	(188,412)	(240,616)	(400,725)	(485,558)
Financing activity, net	19,187	7,306	184	13,723
Mutual fund administration revenue, net	\$4,116,353	\$4,363,311	\$7,887,057	\$8,281,182

Mutual fund administrative net revenue from the Funds was \$3.0 million and \$3.5 million for the three months ended June 30, 2016 and June 30, 2015, respectively. Mutual fund administrative net revenue from the Funds was \$5.8 million and \$6.6 million for the six months ended June 30, 2016 and June 30, 2015, respectively.

Income Taxes

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

The Company is subject to examination by various federal and applicable state and local jurisdictions for various tax periods. The Company's income tax positions are based on research and interpretations of the income tax laws and rulings in each of the jurisdictions in which it does business. Due to the subjectivity of interpretations of laws and rulings in each jurisdiction, the differences and interplay in tax laws between those jurisdictions, as well as the inherent uncertainty in estimating the final resolution of complex tax audit matters, the Company's estimates of income tax liabilities may differ from actual payments or assessments. The Company regularly assesses its position with regard to tax exposures and records liabilities for these uncertain tax positions and related interest and penalties, if any, according to the principles of FASB ASC 740, Income Taxes. As of

