Compass Diversified Holdings
Form 10-Q
May 02, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
Or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

COMPASS DIVERSIFIED HOLDINGS
(Exact name of registrant as specified in its charter)

Delaware	001-34927	57-6218917
(State or other jurisdiction of incorporation or organization)	(Commission file number)	(I.R.S. employer identification number)

COMPASS GROUP DIVERSIFIED HOLDINGS LLC
(Exact name of registrant as specified in its charter)

Delaware	001-34926	20-3812051
(State or other jurisdiction of incorporation or organization)	(Commission file number)	(I.R.S. employer identification number)

301 Riverside Avenue
Second Floor
Westport, CT 06880
(203) 221-1703
(Address, including zip code, and telephone number, including area code, of registrant’s principal executive offices)

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 (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 ý 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 ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See 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	ý	Accelerated filer	¨
Non-accelerated filer	¨	Smaller Reporting Company	¨
		Emerging growth company	¨

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

Exchange Act. ¨

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

As of May 1, 2018, there were 59,900,000 Trust common shares of Compass Diversified Holdings outstanding.

COMPASS DIVERSIFIED HOLDINGS
QUARTERLY REPORT ON FORM 10-Q
For the period ended March 31, 2018
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NOTE TO READER

In reading this Quarterly Report on Form 10-Q, references to:

- the "Trust" and "Holdings" refer to Compass Diversified Holdings;
- "businesses," "operating segments," "subsidiaries" and "reporting units" refer to, collectively, the businesses controlled by the Company;
- the "Company" refer to Compass Group Diversified Holdings LLC;
- the "Manager" refer to Compass Group Management LLC ("CGM");
- the "Trust Agreement" refer to the Second Amended and Restated Trust Agreement of the Trust dated as of December 6, 2016;
- the "2014 Credit Facility" refer to the credit agreement, as amended from time to time, entered into on June 6, 2014 with a group of lenders led by Bank of America N.A. as administrative agent, which provides for a Revolving Credit Facility and a Term Loan;
- the "2018 Credit Facility" refer to the amended and restated credit agreement entered into on April 18, 2018 among the Company, the Lenders from time to time party thereto (the "Lenders"), Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer (the "agent") and other agents party thereto.
- the "2014 Revolving Credit Facility" refer to the $550 million Revolving Credit Facility provided by the 2014 Credit Facility that matures in June 2019;
- the "2014 Term Loan" refer to the $325 million Term Loan Facility, provided by the 2014 Credit Facility that matures in June 2021;
- the "2016 Incremental Term Loan" refer to the $250 million Tranche B Term Facility provided by the 2014 Credit Facility (together with the 2014 Term Loan, the "Term Loans");
- the "LLC Agreement" refer to the fifth amended and restated operating agreement of the Company dated as of December 6, 2016; and
- "we," "us" and "our" refer to the Trust, the Company and the businesses together.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, contains both historical and forward-looking statements. We may, in some cases, use words such as "project," "predict," "believe," "anticipate," "plan," "expect," "estimate," "intend," "should," "would," "could," "potentially," "may," or other words that convey uncertainty of future events or outcomes to identify these forward-looking statements. Forward-looking statements in this Quarterly Report on Form 10-Q are subject to a number of risks and uncertainties, some of which are beyond our control, including, among other things:

- our ability to successfully operate our businesses on a combined basis, and to effectively integrate and improve future acquisitions;
- our ability to remove CGM and CGM's right to resign;
- our organizational structure, which may limit our ability to meet our dividend and distribution policy;
- our ability to service and comply with the terms of our indebtedness;
- our cash flow available for distribution and reinvestment and our ability to make distributions in the future to our shareholders;
- our ability to pay the management fee and profit allocation if and when due;
- our ability to make and finance future acquisitions;
- our ability to implement our acquisition and management strategies;
- the regulatory environment in which our businesses operate;
- trends in the industries in which our businesses operate;
- changes in general economic or business conditions or economic or demographic trends in the United States and other countries in which we have a presence, including changes in interest rates and inflation;
- environmental risks affecting the business or operations of our businesses;
- our and CGM's ability to retain or replace qualified employees of our businesses and CGM;
- costs and effects of legal and administrative proceedings, settlements, investigations and claims; and
- extraordinary or force majeure events affecting the business or operations of our businesses.

Our actual results, performance, prospects or opportunities could differ materially from those expressed in or implied by the forward-looking statements. Additional risks of which we are not currently aware or which we currently deem immaterial could also cause our actual results to differ.

In light of these risks, uncertainties and assumptions, you should not place undue reliance on any forward-looking statements. The forward-looking events discussed in this Quarterly Report on Form 10-Q may not occur. These forward-looking statements are made as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to publicly update or revise any forward-looking statements to reflect subsequent events or circumstances, whether as a result of new information, future events or otherwise, except as required by law.

PART I
FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

COMPASS DIVERSIFIED HOLDINGS
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)	March 31, 2018 (Unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$46,325	$ 39,885
Accounts receivable, net	256,807	215,108
Inventories	294,736	246,928
Prepaid expenses and other current assets	34,686	24,897
Total current assets	632,554	526,818
Property, plant and equipment, net	200,230	173,081
Goodwill	728,276	531,689
Intangible assets, net	687,622	580,517
Other non-current assets	9,064	8,198
Total assets	$2,257,746	$ 1,820,303
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$85,295	$ 84,538
Accrued expenses	108,889	106,873
Due to related party	10,299	7,796
Current portion, long-term debt	5,685	5,685
Other current liabilities	5,873	7,301
Total current liabilities	216,041	212,193
Deferred income taxes	76,538	81,049
Long-term debt	932,299	584,347
Other non-current liabilities	39,577	16,715
Total liabilities	1,264,455	894,304
Stockholders' equity		
Trust preferred shares, 50,000 authorized; 8,000 shares issued and outstanding at March 31, 2018 and 4,000 shares issued and outstanding at December 31, 2017		
Series A preferred shares, no par value; 4,000 shares issued and outstanding at March 31, 2018 and December 31, 2017	96,417	96,417
Series B preferred shares, no par value; 4,000 shares issued and outstanding at March 31, 2018	96,713	—
Trust common shares, no par value, 500,000 authorized; 59,900 shares issued and outstanding at March 31, 2018 and December 31, 2017	924,680	924,680
Accumulated other comprehensive loss	(3,155)	(2,573)
Accumulated deficit	(171,034)	(145,316)
Total stockholders' equity attributable to Holdings	943,621	873,208
Noncontrolling interest	49,670	52,791
Total stockholders' equity	993,291	925,999
Total liabilities and stockholders' equity	$2,257,746	$ 1,820,303

See notes to condensed consolidated financial statements.

COMPASS DIVERSIFIED HOLDINGS
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended March 31,	
(in thousands, except per share data)	2018	2017
Net revenues	$360,693	$289,992
Cost of revenues	234,582	195,659
Gross profit	126,111	94,333
Operating expenses:		
Selling, general and administrative expense	97,865	78,723
Management fees	10,849	7,848
Amortization expense	12,699	10,310
Impairment expense	—	8,864
Operating income (loss)	4,698	(11,412)
Other income (expense):		
Interest expense, net	(6,186)	(7,136)
Amortization of debt issuance costs	(1,098)	(933)
Loss on investment in FOX	—	(5,620)
Other income (expense), net	(1,381)	(22)
Loss from continuing operations before income taxes	(3,967)	(25,123)
Benefit for income taxes	(2,346)	(3,648)
Loss from continuing operations	(1,621)	(21,475)
Gain on sale of discontinued operations, net of income tax	—	340
Net loss	(1,621)	(21,135)
Less: Net income attributable to noncontrolling interest	720	470
Net loss attributable to Holdings	$(2,341)	$(21,605)
Less: Distributions paid - Allocation Interests	—	13,354
Less: Distributions paid - Preferred Shares	1,813	—
Net income (loss) attributable to common shares of Holdings	$(4,154)	$(34,959)
Amounts attributable to common shares of Holdings		
Loss from continuing operations	$(4,154)	$(35,299)
Gain on sale of discontinued operations, net of income tax	—	340
Net loss attributable to Holdings	$(4,154)	$(34,959)
Basic and fully diluted income (loss) per common share attributable to Holdings (refer to Note L)		
Continuing operations	$(0.09)	$(0.61)
Discontinued operations	—	0.01
	$(0.09)	$(0.60)
Weighted average number of shares of common shares outstanding – basic and fully diluted	59,900	59,900
Cash distributions declared per common share (refer to Note L)	$0.36	$0.36

See notes to condensed consolidated financial statements.

COMPASS DIVERSIFIED HOLDINGS
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

(in thousands)	Three months ended March 31, 2018	2017
Net loss	$(1,621)	$(21,135)
Other comprehensive income (loss)		
Foreign currency translation adjustments	(1,023)	1,031
Pension benefit liability, net	441	56
Other comprehensive income (loss)	(582)	1,087
Total comprehensive loss, net of tax	(2,203)	(20,048)
Less: Net income attributable to noncontrolling interests	720	470
Less: Other comprehensive income attributable to noncontrolling interests	354	185
Total comprehensive loss attributable to Holdings, net of tax	$(3,277)	$(20,703)

See notes to condensed consolidated financial statements.

COMPASS DIVERSIFIED HOLDINGS
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)

(in thousands)	Trust Preferred Shares Series A	Trust Preferred Shares Series B	Trust Common Shares	Accumulated Deficit	Accumulated Other Comprehensive Loss	Stockholders' Equity Attributable to Holdings	Non-Controlling Interest	Total Stockholders' Equity
Balance — January 1, 2018	$96,417	—	$924,680	$(145,316)	$(2,573)	$873,208	$52,791	$925,999
Net income (loss)	—	—	—	(2,341)	—	(2,341)	720	(1,621)
Total comprehensive income, net	—	—	—	—	(582)	(582)	—	(582)
Issuance of Trust preferred shares, net of offering costs	—	96,713	—	—	—	96,713	—	96,713
Option activity attributable to noncontrolling shareholders	—	—	—	—	—	—	2,551	2,551
Effect of subsidiary stock option exercise	—	—	—	—	—	—	(6,392)	(6,392)
Distributions paid - Trust Common Shares	—	—	—	(21,564)	—	(21,564)	—	(21,564)
Distributions paid - Trust Preferred Shares	—	—	—	(1,813)	—	(1,813)	—	(1,813)
Balance — March 31, 2018	$96,417	$96,713	$924,680	$(171,034)	$(3,155)	$943,621	$49,670	$993,291

See notes to condensed consolidated financial statements.

COMPASS DIVERSIFIED HOLDINGS
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	Three months ended March 31,	
(in thousands)	2018	2017
Cash flows from operating activities:		
Net loss	$(1,621)	$(21,135)
Gain on sale of discontinued operations, net	—	340
Net loss from continuing operations	(1,621)	(21,475)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation expense	9,590	8,046
Amortization expense	13,343	23,349
Impairment expense	—	8,864
Amortization of debt issuance costs and original issue discount	1,353	1,199
Unrealized gain on interest rate swap	(2,901)	(229)
Noncontrolling stockholder stock based compensation	2,551	1,452
Loss on investment in FOX	—	5,620
Provision for loss on receivables	328	3,318
Deferred taxes	(4,311)	(7,634)
Other	(177)	318
Changes in operating assets and liabilities, net of acquisition:		
(Increase) decrease in accounts receivable	(4,455)	5,710
(Increase) in inventories	(7,164)	(8,076)
(Increase) in prepaid expenses and other current assets	(4,839)	(967)
Increase (decrease) in accounts payable and accrued expenses	4,946	(20,909)
Cash provided by (used in) operating activities	6,643	(1,414)
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(402,770)	(6,721)
Purchases of property and equipment	(12,214)	(8,693)
Net proceeds from sale of equity investment	—	136,147
Payment of interest rate swap	(706)	(1,089)
Proceeds from sale of business	—	340
Other investing activities	62	31
Cash (used in) provided by investing activities	(415,628)	120,015

COMPASS DIVERSIFIED HOLDINGS
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three months ended March 31,	
(in thousands)	2018	2017
Cash flows from financing activities:		
Proceeds from the issuance of Trust preferred shares, net	96,713	—
Borrowings under credit facility	465,500	51,500
Repayments under credit facility	(118,421)	(57,321)
Distributions paid - common shares	(21,564)	(21,564)
Distributions paid - preferred shares	(1,813)	—
Net proceeds provided by noncontrolling shareholders	—	40
Distributions paid to allocation interest holders (refer to Note L)	—	(13,354)
Repurchase of subsidiary stock	(6,392)	—
Debt issuance costs	(138)	(1,414)
Other	(467)	(783)
Net cash provided by (used in) financing activities	413,418	(42,896)
Foreign currency impact on cash	2,007	(196)
Net increase in cash and cash equivalents	6,440	75,509
Cash and cash equivalents — beginning of period	39,885	39,772
Cash and cash equivalents — end of period	$46,325	$115,281

See notes to condensed consolidated financial statements.

COMPASS DIVERSIFIED HOLDINGS
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
March 31, 2018

Note A — Organization and Business Operations
Compass Diversified Holdings, a Delaware statutory trust (the "Trust" or "Holdings"), was incorporated in Delaware on November 18, 2005. Compass Group Diversified Holdings, LLC, a Delaware limited liability company (the "Company" or "CODI"), was also formed on November 18, 2005 with equity interests which were subsequently reclassified as the "Allocation Interests". The Trust and the Company were formed to acquire and manage a group of small and middle-market businesses headquartered in North America. In accordance with the second amended and restated Trust Agreement, dated as of December 6, 2016 (the "Trust Agreement"), the Trust is sole owner of 100% of the Trust Interests (as defined in the Company's fifth amended and restated operating agreement, dated as of December 6, 2016 (as amended and restated, the "LLC Agreement")) of the Company and, pursuant to the LLC Agreement, the Company has, outstanding, the identical number of Trust Interests as the number of outstanding shares of the Trust. The Company is the operating entity with a board of directors and other corporate governance responsibilities, similar to that of a Delaware corporation.
The Company is a controlling owner of ten businesses, or reportable operating segments, at March 31, 2018. The segments are as follows: 5.11 Acquisition Corp. ("5.11" or "5.11 Tactical"), Crosman Corp. ("Crosman"), The Ergo Baby Carrier, Inc. ("Ergobaby"), Liberty Safe and Security Products, Inc. ("Liberty Safe" or "Liberty"), Fresh Hemp Foods Ltd. ("Manitoba Harvest"), Compass AC Holdings, Inc. ("ACI" or "Advanced Circuits"), AMT Acquisition Corporation ("Arnold" or "Arnold Magnetics"), Clean Earth Holdings, Inc. ("Clean Earth"), FFI Compass Inc. ("Foam Fabricators" or "Foam") and Sterno Products, LLC ("Sterno"). Refer to Note E - "Operating Segment Data" for further discussion of the operating segments. Compass Group Management LLC, a Delaware limited liability company ("CGM" or the "Manager"), manages the day to day operations of the Company and oversees the management and operations of our businesses pursuant to a management services agreement ("MSA").
Note B - Presentation and Principles of Consolidation
The condensed consolidated financial statements for the three month periods ended March 31, 2018 and March 31, 2017, are unaudited, and in the opinion of management, contain all adjustments necessary for a fair presentation of the condensed consolidated financial statements. Such adjustments consist solely of normal recurring items. Interim results are not necessarily indicative of results for a full year or any subsequent interim period. The condensed consolidated financial statements and notes are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP" or "GAAP") and presented as permitted by Form 10-Q and do not contain certain information included in the annual consolidated financial statements and accompanying notes of the Company. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.
Seasonality
Earnings of certain of the Company's operating segments are seasonal in nature. Earnings from Liberty are typically lowest in the second quarter due to lower demand for safes at the onset of summer. Crosman typically has higher sales in the third and fourth quarter each year, reflecting the hunting and holiday seasons. Earnings from Clean Earth are typically lower during the winter months due to the limits on outdoor construction and development activity because of the colder weather in the Northeastern United States. Sterno typically has higher sales in the second and fourth quarter of each year, reflecting the outdoor summer and holiday seasons, respectively.
Consolidation
The condensed consolidated financial statements include the accounts of Holdings and all majority owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.
Recently Adopted Accounting Pronouncements
Revenue from Contracts with Customers
In May 2014, the FASB issued a comprehensive new revenue recognition standard. The new standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and

supersedes most current revenue recognition guidance, including industry-specific guidance. In addition, the standard requires disclosure of the amount, timing and uncertainty of cash flows arising from contracts with customers. The new standard, and all related amendments, was effective for the Company beginning January 1, 2018 and was adopted using the modified retrospective method for all contracts not completed as of the date of adoption.

The reported results for reporting periods after January 1, 2018 are presented under the new revenue recognition guidance while prior period amounts were prepared under the previous revenue guidance which is also referred to herein as the "previous guidance". The Company determined that the impact from the new standard is immaterial to our revenue recognition model since the vast majority of our recognition is based on point in time control. Accordingly, the Company has not made any adjustments to opening retained earnings.

The adoption of the new revenue guidance represents a change in accounting principle that will more closely align revenue recognition with the transfer of control of the Company's goods and services and will provide financial statement readers with enhanced disclosures. In accordance with the new revenue guidance, revenue is recognized when a customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these goods or services, and excludes any sales incentives or taxes collected from customers which are subsequently remitted to government authorities. The impacts from the adoption of the new revenue guidance primarily relates to the timing of revenue recognition for variable consideration received, consideration payable to a customer and recording right of return assets. Although these differences have been identified, the total impact to each reportable segment will not be material to the consolidated financial statements. In addition the accounting for the estimate of variable consideration in our contracts is not materially different compared to our current practice. The Company has established monitoring controls to identify new sales arrangements and changes in our business environment that could impact our current accounting assessment.

Performance Obligations - For 5.11, Crosman, Ergobaby, Liberty Safe, Manitoba Harvest, Sterno, Arnold and Foam Fabricators, revenues are recognized when control of the promised goods or service is transferred to the customer, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods and services. Each product or service represents a separate performance obligation. For contracts that contain multiple products, the Company will evaluate those products to determine if they represent performance obligations based on whether those goods or services are distinct (by themselves or as part of a bundle of products). Further, the Company evaluated if the products were separately identifiable from other products in the contract. The Company concluded that the products are distinct and separately identifiable from other products in the contracts. The Company determines standalone selling prices based on the price at which the performance obligation is sold separately. The standalone selling price is directly observable as it is the price at which the Company sells its products separately to the customer. As the Company does not meet any of the requirements for over time recognition for any of its products at these operating segments, it will recognize revenue based on the point in time criteria based on the definition of control, which is generally upon shipment terms for products and when the service is performed for services. Transfer of control for Advanced Circuit’s products qualify for over time revenue recognition because the products represent assets with no alternative use and the contracts include an enforceable right to payment for work completed to date. Advanced Circuits has selected the cost to cost input method of measuring progress to recognize revenue over time, based on the status of the work performed. The cost to cost method is representative of the value provided to the customer as it represents the Company’s performance completed to date. However, due to the short-term nature of Advanced Circuit's production cycle, there is an immaterial difference between revenue recognition under the previous guidance and the new revenue recognition guidance. Clean Earth’s arrangements qualify for over time revenue recognition as the customer simultaneously receives and consumes the benefits provided by the Company’s performance. As the Company performs the service, another party would not need to re-perform any of the work completed by the Company to date. Clean Earth has elected to apply the as-invoiced practical expedient to record revenue as the services are provided, given the nature of the services provided and the frequency of billing under the customer contracts.

Shipping and handling costs - Costs associated with shipment of products to a customer are accounted for as a fulfillment cost and are included in cost of revenues. The Company has elected to apply the practical expedient for shipping costs under the new revenue guidance and will account for shipping and handling activities performed after control of a good has been transferred to the customer as a fulfillment cost and not a performance obligation.

Therefore, both revenue and costs of shipping and handling will be recorded at the same time. As a result, any consideration (including freight and landing costs) related to these activities will be included as a component of the overall transaction consideration and allocated to the performance obligations of the contract.

Warranty - For product sales, the Company provides standard assurance-type warranties as the Company only warrants its products against defects in materials and workmanship (i.e., manufacturing flaws). Although the warranties are not required by law, the tasks performed over the warranty period are only to remediate instances when products do not meet the promised specifications. Customers do not have the option to purchase warranties separately. The

Company’s warranty periods generally range from 90 days to three years depending on the nature of the product and are consistent with industry standards. The periods are reasonable to assure that products conform to specifications. The Company does not have a history of performing activities outside the scope of the standard warranty.
Significant Judgments - The Company’s contracts with customers often include promises to transfer multiple products to a customer. Determining whether the promises are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. Once the performance obligations are identified, the Company determines the transaction price, which includes estimating the amount of variable consideration to be included in the transaction price, if any. The Company then allocates the transaction price to each performance obligation in the contract based on a relative stand-alone selling price method. The corresponding revenues are recognized as the related performance obligations are satisfied as discussed above. Judgment is required to determine the standalone selling price for each distinct performance obligation. The Company determines standalone selling prices based on the price at which the performance obligation is sold separately and therefore observable.
Variable Consideration - Upon adoption of the new revenue guidance, the Company’s policy around estimating variable consideration related to sales incentives (early pay discounts, rights of return, rebates, chargebacks, and other discounts) included in certain customer contracts remained consistent with previous guidance. These incentives are recorded as a reduction in the transaction price. Under the new guidance, variable consideration is estimated and included in total consideration at contract inception based on either the expected value method or the most likely outcome method. The method was applied consistently among each type of variable consideration and the Company applies the expected value method to estimate variable consideration. These estimates are based on historical experience, anticipated performance and the Company’s best judgment at the time and as a result, reflect applicable constraints. The Company includes in the transaction price an amount of variable consideration estimated in accordance with the new guidance only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.
In certain of the Company’s arrangements related to product sales, a right of return exists, which is included in the transaction price. For these right of return arrangements, an asset (and corresponding adjustment to cost of sale) for its right to recover the products from the customers is recorded. The asset recognized will be the carrying amount of the product (for example, inventory) less any expected costs to recover the products (including potential decreases in the value to the Company of the returned product). Additionally, the Company records a refund liability for the amount of consideration that it does not expect to be entitled. The amounts associated with right of return arrangements are not material to the Company's statement of position or operating results.
Sales and Other Similar Taxes - The Company notes that under its contracts with customers, the customer is responsible for all sales and other similar taxes, which the Company will invoice the customer for if they are applicable. The new revenue guidance allows entities to make an accounting policy election to exclude sales taxes and other similar taxes from the measurement of the transaction price. The scope of this accounting policy election is the same as the scope of the policy election in the previous guidance. As the Company presents taxes on a net basis under the previous guidance there will be no change to the current presentation (net) as a result.
Practical Expedients - The Company has elected to make the following accounting policy elections through the adoption of the following practical expedients:
Right to Invoice (Clean Earth) - The Company will record the consideration from a customer in an amount that corresponds directly with the value to the customer of the Company’s performance completed to date (for example, in a service contract where 25% of the service has been performed, the Company would recognized 25% of the revenue), the entity may recognize revenue in the amount to which the entity has a right to invoice.
Sales and Other Similar Taxes - The Company will exclude sales taxes and similar taxes from the measurement of transaction price and will ensure that it complies with the disclosure requirements of applicable accounting guidance.
Cost to Obtain a Contract - The Company will recognize the incremental costs of obtaining a contract as an expense when incurred as the amortization period of the asset that the Company otherwise would have recognized is one year or less.

Promised Goods or Services that are Immaterial in the Context of a Contract - The Company has elected to assess promised goods or services as performance obligations that are deemed to be immaterial in the context of a contract. As such, the Company will not aggregate and assess immaterial items at the entity level. That is, when determining whether a good or service is immaterial in the context of a contract, the assessment will be made based on the application of the new revenue guidance at the contract level.

Disaggregated Revenue - Revenue Streams & Timing of Revenue Recognition - The Company disaggregates revenue by strategic business unit and by geography for each strategic business unit which are categories that depict how the nature, amount and uncertainty of revenue and cash flows are affected by economic factors. This disaggregation also represents how the Company evaluates its financial performance, as well as how the Company communicates its financial performance to the investors and other users of its financial statements. Each strategic business unit represents the Company's reportable segments and offers different products and services. Refer to Note E - Operating Segment Data for disaggregation of revenue by reportable segment geography.

Improving the Presentation of Net Periodic Pension Costs

In March 2017, the FASB issued new guidance that will require employers that sponsor defined benefit plans to present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period, and requires the other components of net periodic pension cost to be presented in the income statement separately from the service component cost and outside a subtotal of income from operations. The new guidance shall be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost. The amended guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company's Arnold business segment has a defined benefit plan covering substantially all of Arnold's employees at its Switzerland location. The adoption of this guidance on January 1, 2018 did not have a material impact upon our financial condition or results of operations.

Changes to the Definition of a Business

In January 2017, the FASB issued new guidance that changes the definition of a business to assist entities in evaluating when a set of transferred assets and activities constitutes a business. The guidance requires an entity to evaluate if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If so, the set of transferred asset and activities is not a business. The guidance also requires a business to include at least one substantive process and narrows the definition of outputs by more closely aligning it with how outputs are described in the new revenue recognition guidance. The new standard was effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The adoption of this guidance did not have a material impact upon our financial condition or results of operations.

Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued an accounting standard update which updates the guidance as to how certain cash receipts and cash payments should be presented and classified within the statement of cash flows. The amended guidance was effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, with early adoption permitted, including adoption in an interim period. The adoption of this guidance on January 1, 2018 did not have a material impact on our consolidated financial statements.

Recently Issued Accounting Pronouncements

Leases

In February 2016, the FASB issued an accounting standard update related to the accounting for leases which will require an entity to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. The standard update offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. For public companies, the new standard is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and requires modified retrospective adoption, with early adoption permitted. Accordingly, this standard is effective for the Company on January 1, 2019. The Company is currently assessing the impact of the new standard on our consolidated financial statements.

Note C — Acquisitions

Acquisition of Foam Fabricators

On February 15, 2018, pursuant to a stock purchase agreement entered into on January 18, 2018, the Company, through a wholly owned subsidiary, FFI Compass, Inc. ("Buyer"), entered into a Stock Purchase Agreement (the "Purchase Agreement") with Warren F. Florkiewicz ("Seller") pursuant to which Buyer acquired all of the issued and outstanding capital stock of Foam Fabricators, Inc., a Delaware corporation ("Foam Fabricators"). Foam Fabricators is a leading designer and manufacturer of custom molded protective foam solutions and original equipment manufacturer ("OEM") components made from expanded polymers such as expanded polystyrene (EPS) and expanded polypropylene (EPP). Founded in 1957 and headquartered in Scottsdale, Arizona, it operates 13 molding and fabricating facilities across North America and provides products to a variety of end-markets, including appliances and electronics, pharmaceuticals, health and wellness, automotive, building and other products.

The Company made loans to, and purchased a 100% controlling interest in Foam Fabricators. The purchase price, net of transaction costs, was approximately $250.3 million, subject to any working capital adjustment. The Company funded the acquisition through a draw on the 2014 Revolving Credit Facility. The transaction was accounted for as a business combination. CGM acted as an advisor to the Company in the acquisition and will continue to provide integration services during the first year of the Company's ownership. CGM will receive integration service fees of $2.25 million payable over a twelve month period as services are rendered.

The results of operations of Foam Fabricators have been included in the consolidated results of operations since the date of acquisition. Foam Fabricator's results of operations are reported as a separate operating segment. The table below provides the recording of assets acquired and liabilities assumed as of the acquisition date.

(in thousands)	Preliminary Purchase Allocation As of 2/15/18
Assets:	
Cash	$ 6,282
Accounts receivable [1]	19,058
Inventory [2]	13,218
Property, plant and equipment [3]	23,485
Intangible assets	121,392
Goodwill	71,489
Other current and noncurrent assets	2,945
Total assets	257,869
Liabilities:	
Current liabilities	5,968
Other liabilities	115,033
Total liabilities	121,001
Net assets acquired	136,868
Intercompany loans to business	115,033
	$ 251,901

Acquisition Consideration	
Purchase price	$247,500
Cash acquired	3,646
Working capital adjustment	755
Total purchase consideration	$251,901
Less: Transaction costs	1,552
Purchase price, net	$250,349

[1] Includes $19.4 million of gross contractual accounts receivable of which $0.3 million is not expected to be collected. The fair value of accounts receivable approximated book value acquired.

[2] Includes $0.7 million in inventory basis step-up, which was charged to cost of goods sold in the first quarter of 2018.

[3] Includes $15.6 million of property, plant and equipment basis step-up.

The Company incurred $1.6 million of transaction costs in conjunction with the Foam Fabricators acquisition, which is included in selling, general and administrative expense in the consolidated results of operations in the quarter ended

March 31, 2018. The allocation of the purchase price presented above is based on management's estimate of the fair values using valuation techniques including income, cost and market approaches. In estimating the fair value of the acquired assets and assumed liabilities, the fair value estimates are based on, but not limited to, expected future revenue and cash flows, expected future growth rates and estimated discount rates. Current and noncurrent assets and current and other liabilities are valued at historical carrying values. Property, plant and equipment is valued through a purchase price appraisal and will be depreciated on a straight-line basis over the respective remaining useful lives of the assets. Goodwill is calculated as the excess of the consideration transferred over the fair value of the identifiable net assets acquired and represents the future economic benefits expected to arise from other intangible assets acquired that do not qualify for separate recognition, including assembled workforce and non-contractual relationships, as well as expected future synergies. The goodwill of $71.5 million reflects the strategic fit of Foam Fabricators in the Company's niche industrial business and is expected to be deductible for income tax purposes. The purchase accounting for Foam Fabricators is preliminary and is expected to be finalized during the second quarter of 2018.

The intangible assets recorded on a preliminary basis related to the Foam Fabricators acquisition are as follows (in thousands):

Intangible assets	Amount	Estimated Useful Life
Tradename	$4,215	10 years
Customer Relationships	117,177	15 years
	$121,392	

The tradename was valued at $4.2 million using a relief from royalty methodology, in which an asset is valuable to the extent that the ownership of the asset relieves the company from the obligation of paying royalties for the benefits generated by the asset. The customer relationships intangible asset was valued at $117.2 million using an excess earnings methodology, in which an asset is valuable to the extent it enables its owners to earn a return in excess of the required returns on the other assets utilized in the business. The customer relationships intangible asset was derived using a risk adjusted discount rate.

Acquisition of Rimports

On February 26, 2018, the Company's Sterno subsidiary acquired all of the issued and outstanding capital stock of Rimports, Inc., a Utah corporation (“Rimports”), pursuant to a Stock Purchase Agreement, dated January 23, 2018, by and among Sterno and Jeffery W. Palmer, individually and in his capacity as Seller Representative, the Jeffery Wayne Palmer Dynasty Trust dated December 26, 2011, the Angela Marie Palmer Irrevocable Trust dated December 26, 2011, the Angela Marie Palmer Charitable Lead Trust, the Fidelity Investments Charitable Gift Fund, the TAK Irrevocable Trust dated June 7, 2012, and the SAK Irrevocable Trust dated June 7, 2012. Headquartered in Provo, UT, Rimports is a manufacturer and distributor of branded and private label scented wickless candle products used for home décor and fragrance. Rimports offers an extensive line of wax warmers, scented wax cubes, essential oils and diffusers, and other home fragrance systems, through the mass retailer channel.

Sterno purchased a 100% controlling interest in Rimports. The purchase price, net of transaction costs, was approximately $149.8 million, subject to any working capital adjustment. The purchase price of Rimports includes a potential earn-out of up to $25 million contingent on the attainment of certain future performance criteria of Rimports for the twelve-month period from May 1, 2017 to April 30, 2018 and the fourteen month period from March 1, 2018 to April 30, 2019. The fair value of the contingent consideration related to the earn-out has not yet been determined therefore the contingent consideration is reflected in the condensed consolidated balance sheet at the full settlement amount. Sterno funded the acquisition through their intercompany credit facility with the Company. The transaction was accounted for as a business combination.

The results of operations of Rimports have been included in the consolidated results of operations since the date of acquisition. Rimport's results of operations are included in the Sterno operating segment. The table below provides the recording of assets acquired and liabilities assumed as of the acquisition date. A full and detailed valuation of the assets and liabilities of Rimports is in process and the information related to the purchase price allocation remains pending at this time. The purchase price allocation for Rimports is expected to result in a step up in the fair value of the inventory and property, plant and equipment, as well as a portion of the purchase price allocated to intangible assets. Goodwill will be calculated as the excess of the consideration transferred over the fair value of the identifiable net assets acquired and represents the future economic benefits expected to arise from other intangible assets acquired that do not qualify for separate recognition, including assembled workforce and non-contractual relationships, as well as expected future synergies. The goodwill resulting from the purchase price allocation is expected to be deductible

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for income tax purposes.

(in thousands)	Preliminary Purchase Allocation As of 2/26/18
Assets:	
Cash	$ 10,025
Accounts receivable [1]	21,431
Inventory	29,691
Property, plant and equipment	1,493
Intangible assets	—
Goodwill	121,364
Other current and noncurrent assets	446
Total assets	184,450
Liabilities	
Current liabilities	9,034
Other liabilities [2]	25,000
Total liabilities	34,034
Net assets acquired	$ 150,416

Acquisition Consideration	
Purchase price	$145,000
Cash acquired	9,500
Working capital adjustment	(4,084)
Total purchase consideration	150,416
Less: Transaction costs	632
Purchase price, net	$149,784

[1] Includes $23.8 million of gross contractual accounts receivable of which $2.4 million is not expected to be collected. The fair value of accounts receivable approximated book value acquired.
[2] The purchase price of Rimports includes a potential earn-out of up to $25 million contingent on the attainment of certain future performance criteria of Rimports for the twelve-month period from May 1, 2017 to April 30, 2018 and the fourteen month period from March 1, 2018 to April 30, 2019.

Sterno incurred $0.6 million of transaction costs in conjunction with the acquisition of Rimports, which was included in selling, general and administrative expense in the consolidated results of operations in the quarter ended March 31, 2018.

Acquisition of Crosman

On June 2, 2017, CBCP Acquisition Corp. (the "Buyer"), a wholly owned subsidiary of the Company, entered into an equity purchase agreement pursuant to which it acquired all of the outstanding equity interests of Bullseye Acquisition Corporation, the indirect owner of the equity interests of Crosman Corp. ("Crosman"). Crosman is a designer, manufacturer and marketer of airguns, archery products, laser aiming devices and related accessories. Headquartered in Bloomfield, New York, Crosman serves over 425 customers worldwide, including mass merchants, sporting goods retailers, online channels and distributors serving smaller specialty stores and international markets. Its diversified product portfolio includes the widely known Crosman, Benjamin and CenterPoint brands.

The Company made loans to, and purchased a 98.9% controlling interest in, Crosman. The purchase price, including proceeds from noncontrolling interests and net of transaction costs, was approximately $150.4 million. Crosman management invested in the transaction along with the Company, representing approximately 1.1% of the initial noncontrolling interest on a primary and fully diluted basis. The fair value of the noncontrolling interest was determined based on the enterprise value of the acquired entity multiplied by the ratio of the number of shares acquired by the minority holders to total shares. The transaction was accounted for as a business combination. CGM acted as an advisor to the Company in the acquisition and will continue to provide integration services during the first year of the Company's ownership of Crosman. CGM will receive integration service fees of $1.5 million payable quarterly over a twelve month period as services are rendered beginning in the quarter ended September 30, 2017. The Company incurred $1.5 million of transaction costs in conjunction with the Crosman acquisition, which was included in selling, general and administrative expense in the consolidated results of operations in the second quarter of 2017.

The results of operations of Crosman have been included in the consolidated results of operations since the date of acquisition. Crosman's results of operations are reported as a separate operating segment as a branded consumer business. The table below provides the recording of assets acquired and liabilities assumed as of the acquisition date.

(in thousands)	Preliminary Purchase Allocation As of 6/2/2017	Measurement Period Adjustments	Final Purchase Allocation December 31, 2017
Assets:			
Cash	$ 429	$ 781	$ 1,210
Accounts receivable [(1)]	16,751	—	16,751
Inventory	25,598	3,275	28,873
Property, plant and equipment	10,963	4,051	15,014
Intangible assets	—	84,594	84,594
Goodwill	139,434	(90,675)	48,759
Other current and noncurrent assets	2,348	—	2,348
Total assets	$ 195,523	$ 2,026	$ 197,549
Liabilities and noncontrolling interest:			
Current liabilities	$ 15,502	$ 781	$ 16,283
Other liabilities	91,268	354	91,622
Deferred tax liabilities	27,286	1,229	28,515
Noncontrolling interest	694	—	694
Total liabilities and noncontrolling interest	$ 134,750	$ 2,364	$ 137,114
Net assets acquired	$ 60,773	$ (338)	$ 60,435
Noncontrolling interest	694	—	694
Intercompany loans to business	90,742	—	90,742
	$ 152,209	$ (338)	$ 151,871

Acquisition Consideration			
Purchase price	$151,800	$—	$151,800
Cash acquired	1,417	(207)	1,210
Working capital adjustment	(1,008)	(131)	(1,139)
Total purchase consideration	152,209	(338)	151,871
Less: Transaction costs	1,397	76	1,473
Purchase price, net	$150,812	$(414)	$150,398

(1) Includes $18.0 million of gross contractual accounts receivable of which $1.2 million was not expected to be collected. The fair value of accounts receivable approximated book value acquired.

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The allocation of the purchase price presented above is based on management's estimate of the fair values using valuation techniques including income, cost and market approach. In estimating the fair value of the acquired assets and assumed liabilities, the fair value estimates are based on, but not limited to, expected future revenue and cash flows, expected future growth rates and estimated discount rates. Current and noncurrent assets and current and other liabilities are valued at historical carrying values. Property, plant and equipment is valued through a purchase price appraisal and will be depreciated on a straight-line basis over the respective remaining useful lives of the assets. Goodwill is calculated as the excess of the consideration transferred over the fair value of the identifiable net assets acquired and represents the future economic benefits expected to arise from other intangible assets acquired that do not qualify for separate recognition, including assembled workforce and non-contractual relationships, as well as expected future synergies. The goodwill of $48.8 million reflects the strategic fit of Crosman in the Company's branded consumer business and is not expected to be deductible for income tax purposes. The purchase accounting for Crosman was finalized during the fourth quarter of 2017.

The intangible assets recorded related to the Crosman acquisition are as follows (in thousands):

Intangible Assets	Amount	Estimated Useful Life
Tradename	$53,463	20 years
Customer relationships	28,718	15 years
Technology	2,413	15 years
	$84,594	

The tradename was valued at $53.5 million using a multi-period excess earnings methodology. The customer relationships intangible asset was valued at $28.7 million using the distributor method, a variation of the multi-period excess earnings methodology, in which an asset is valuable to the extent it enables its owners to earn a return in excess of the required returns on the other assets utilized in the business. The technology was valued at $2.4 million using a relief from royalty method.

Unaudited pro forma information

The following unaudited pro forma data for the three months ended March 31, 2018 and March 31, 2017 gives effect to the acquisition of Crosman, Foam Fabricators and Sterno's acquisition of Rimports, as described above, as if the acquisitions had been completed as of January 1, 2017. The pro forma data gives effect to historical operating results with adjustments to interest expense, amortization and depreciation expense, management fees and related tax effects. The information is provided for illustrative purposes only and is not necessarily indicative of the operating results that would have occurred if the transaction had been consummated on the date indicated, nor is it necessarily indicative of future operating results of the consolidated companies, and should not be construed as representing results for any future period. The preliminary purchase price for Rimports has not yet been completed and the pro forma data does not include the expected effect of intangible amortization and depreciation of the step-up in basis of property, plant and equipment.

	Three months ended March 31,	
(in thousands)	2018	2017
Net sales	$400,521	$375,499
Gross profit	136,457	118,870
Operating income (loss)	8,423	(2,056)
Net loss	(3,240)	(8,701)
Net loss attributable to Holdings	(3,960)	(9,171)
Basic and fully diluted net loss per share attributable to Holdings	$(0.12)	$(0.40)

Note D — Property, Plant and Equipment and Inventory

Property, plant and equipment

Property, plant and equipment is comprised of the following at March 31, 2018 and December 31, 2017 (in thousands):

	March 31, 2018	December 31, 2017
Machinery and equipment	$194,651	$178,187
Furniture, fixtures and other	39,954	28,824
Leasehold improvements	23,422	20,630
Buildings and land	42,893	40,015
Construction in process	25,625	18,153
	326,545	285,809
Less: accumulated depreciation	(126,315)	(112,728)
Total	$200,230	$173,081

Depreciation expense was $9.6 million for the three months ended March 31, 2018, and $8.0 million for the three months ended March 31, 2017.

Inventory

Inventory is comprised of the following at March 31, 2018 and December 31, 2017 (in thousands):

	March 31, 2018	December 31, 2017
Raw materials	$55,636	$36,124
Work-in-process	16,357	13,921
Finished goods	237,364	205,512
Less: obsolescence reserve	(14,621)	(8,629)
Total	$294,736	$246,928

Note E — Operating Segment Data

At March 31, 2018, the Company had ten reportable operating segments. Each operating segment represents a platform acquisition. The Company's operating segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. A description of each of the reportable segments and the types of products and services from which each segment derives its revenues is as follows:

- 5.11 Tactical is a leading provider of purpose-built tactical apparel and gear for law enforcement, firefighters, EMS, and military special operations as well as outdoor and adventure enthusiasts. 5.11 is a brand known for innovation and authenticity, and works directly with end users to create purpose-built apparel and gear designed to enhance the safety, accuracy, speed and performance of tactical professionals and enthusiasts worldwide. Headquartered in Irvine, California, 5.11 operates sales offices and distribution centers globally, and 5.11 products are widely distributed in uniform stores, military exchanges, outdoor retail stores, its own retail stores and on 511tactical.com.
- Crosman is a leading designer, manufacturer, and marketer of airguns, archery products, laser aiming devices and related accessories. Crosman offers its products under the highly recognizable Crosman, Benjamin, LaserMax and CenterPoint brands that are available through national retail chains, mass merchants, dealer and distributor networks. Crosman is headquartered in Bloomfield, New York.
- Ergobaby is a designer, marketer and distributor of wearable baby carriers and accessories, blankets and swaddlers, nursing pillows, and related products. Ergobaby primarily sells its Ergobaby and Baby Tula branded products through brick-and-mortar retailers, national chain stores, online retailers, its own websites and distributors and derives more than 50% of its sales from outside of the United States. Ergobaby is headquartered in Los Angeles, California.
- Liberty Safe is a designer, manufacturer and marketer of premium home, gun and office safes in North America. From its over 300,000 square foot manufacturing facility, Liberty produces a wide range of home and gun safe models in a broad assortment of sizes, features and styles. Liberty is headquartered in Payson, Utah.

- Manitoba Harvest is a pioneer and leader in the manufacture and distribution of branded, hemp-based foods and hemp-based ingredients. Manitoba Harvest's products, which include Hemp Hearts™, Hemp Heart Bites™, and Hemp protein powders, are currently carried in over 13,000 retail stores across the United States and Canada. Manitoba Harvest is headquartered in Winnipeg, Manitoba.
- Advanced Circuits is an electronic components manufacturing company that provides small-run, quick-turn and volume production rigid printed circuit boards. ACI manufactures and delivers custom printed circuit boards to customers primarily in North America. ACI is headquartered in Aurora, Colorado.
- Arnold Magnetics is a global manufacturer of engineered magnetic solutions for a wide range of specialty applications and end-markets, including aerospace and defense, motorsport/automotive, oil and gas, medical, general industrial, electric utility, reprographics and advertising specialty markets. Arnold Magnetics produces high performance permanent magnets (PMAG), flexible magnets (Flexmag) and precision foil products (Precision Thin Metals or "PTM") that are mission critical in motors, generators, sensors and other systems and components. Based on its long-term relationships, Arnold has built a diverse and blue-chip customer base totaling more than 2,000 clients worldwide. Arnold Magnetics is headquartered in Rochester, New York.
- Clean Earth provides environmental services for a variety of contaminated materials including soils, dredged material, hazardous waste and drill cuttings. Clean Earth analyzes, treats, documents and recycles waste streams generated in multiple end-markets such as power, construction, oil and gas, infrastructure, industrial and dredging. Clean Earth is headquartered in Hatboro, Pennsylvania and operates 24 facilities in the eastern United States.
- Foam Fabricators is a designer and manufacturer of custom molded protective foam solutions and original equipment manufacturer components made from expanded polystyrene and expanded polypropylene. Foam Fabricators provides products to a variety of end markets, including appliances and electronics, pharmaceuticals, health and wellness, automotive, building and other products. Foam Fabricators is headquartered in Scottsdale, Arizona and operates 13 molding and fabricating facilities across North America.
- Sterno is a manufacturer and marketer of portable food warming fuel and creative table lighting solutions for the food service industry and flameless candles, outdoor lighting products, scented wax cubes and warmer products for consumers. Sterno's products include wick and gel chafing fuels, butane stoves and accessories, liquid and traditional wax candles, scented wax cubes and warmer products used for home decor and fragrance systems, catering equipment and outdoor lighting products. Sterno is headquartered in Corona, California.

The tabular information that follows shows data for each of the operating segments reconciled to amounts reflected in the consolidated financial statements. The results of operations of each of the operating segments are included in consolidated operating results as of their date of acquisition. There were no significant inter-segment transactions.

Summary of Operating Segments

Net Revenues	Three months ended March 31,	
(in thousands)	2018	2017
5.11 Tactical	$83,957	$78,513
Crosman	24,407	—
Ergobaby	22,162	22,613
Liberty	23,453	27,978
Manitoba Harvest	16,342	13,128
ACI	22,063	21,460
Arnold Magnetics	29,399	26,496
Clean Earth	58,221	47,276
Foam Fabricators	15,457	—
Sterno	65,232	52,528
Total segment revenue	360,693	289,992
Corporate and other	—	—
Total consolidated revenues	$360,693	$289,992

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Segment profit (loss) [1]	Three months ended March 31,	
(in thousands)	2018	2017
5.11 Tactical	$(617)	$(9,485)
Crosman	273	—
Ergobaby	2,340	5,200
Liberty	2,815	2,480
Manitoba Harvest	(869)	223
ACI	5,932	5,640
Arnold Magnetics	1,725	(8,397)
Clean Earth	759	(446)
Foam Fabricators	725	—
Sterno	4,751	3,652
Total	17,834	(1,133)
Reconciliation of segment profit (loss) to consolidated income (loss) before income taxes:		
Interest expense, net	(6,186)	(7,136)
Other expense, net	(1,381)	(22)
Loss on equity method investment	—	(5,620)
Corporate and other [2]	(14,234)	(11,212)
Total consolidated loss before income taxes	$(3,967)	$(25,123)

[1] Segment profit (loss) represents operating income (loss).
[2] Primarily relates to management fees expensed and payable to CGM, and corporate overhead expenses.

Depreciation and Amortization Expense	Three months ended March 31,	
(in thousands)	2018	2017
5.11 Tactical	$5,372	$17,532
Crosman	1,991	—
Ergobaby	2,042	653
Liberty	343	599
Manitoba Harvest	1,621	1,510
ACI	804	873
Arnold Magnetics	1,516	2,045
Clean Earth	5,460	5,227
Foam Fabricators	885	—
Sterno	2,899	2,956
Total	22,933	31,395
Reconciliation of segment to consolidated total:		
Amortization of debt issuance costs and original issue discount	1,353	1,199
Consolidated total	$24,286	$32,594

	Accounts Receivable		Identifiable Assets	
	March 31,	December 31,	March 31,	December 31,
(in thousands)	2018	2017	2018 [1]	2017 [1]
5.11 Tactical	$62,088	$60,481	$313,859	$324,068
Crosman	15,922	20,396	131,709	129,033
Ergobaby	12,265	12,869	106,142	105,672
Liberty	13,083	13,679	28,175	26,715
Manitoba Harvest	6,704	5,663	92,841	95,046
ACI	6,591	6,525	15,365	14,522
Arnold Magnetics	17,658	14,804	67,204	66,979
Clean Earth	51,137	50,599	182,611	183,508
Foam Fabricators	20,596	—	165,490	—
Sterno	62,619	40,087	164,315	125,937
Allowance for doubtful accounts	(11,856)	(9,995)	—	—
Total	256,807	215,108	1,267,711	1,071,480
Reconciliation of segment to consolidated total:				
Corporate and other identifiable assets	—	—	4,952	2,026
Total	$256,807	$215,108	$1,272,663	$1,073,506

(1) Does not include accounts receivable balances per schedule above or goodwill balances - refer to Note G - "Goodwill and Other Intangible Assets".

Geographic Information

Net Revenues	Three months ended March 31,	
(in thousands)	2018	2017
United States	$297,822	$228,467
Canada	13,655	12,634
Europe	28,742	20,418
Asia Pacific	11,607	12,133
Other international	8,867	16,340
	$360,693	$289,992

The following tables provide disaggregation of revenue by reportable segment geography:

	Three months ended March 31, 2018										
	5.11	Crosman	Ergo	Liberty	Manitoba Harvest	ACI	Arnold	Clean Earth	Foam	Sterno	Total
United States	$64,452	$20,085	$8,203	$22,756	$11,015	$22,063	$17,282	$58,221	$13,486	$60,259	$297,822
Canada	2,017	1,353	765	697	4,514	—	368	—	—	3,941	13,655
Europe	8,558	1,508	7,158	—	532	—	10,146	—	—	840	28,742
Asia Pacific	4,241	330	5,692	—	270	—	911	—	—	163	11,607
Other international	4,689	1,131	344	—	11	—	692	—	1,971	29	8,867
	$83,957	$24,407	$22,162	$23,453	$16,342	$22,063	$29,399	$58,221	$15,457	$65,232	$360,693

	Three months ended March 31, 2017								
	5.11	Ergo	Liberty	Manitoba Harvest	ACI	Arnold	Clean Earth	Sterno	Total
United States	$53,247	$9,815	$27,978	$7,232	$21,460	$15,442	$47,276	$46,017	$228,467
Canada	1,529	662	—	5,086	—	327	—	5,030	12,634
Europe	4,815	5,267	—	713	—	8,564	—	1,059	20,418
Asia Pacific	3,592	6,479	—	97	—	1,630	—	335	12,133
Other international	15,330	390	—	—	—	533	—	87	16,340
	$78,513	$22,613	$27,978	$13,128	$21,460	$26,496	$47,276	$52,528	$289,992

Note F - Investment in FOX

Fox Factory Holdings Corp. ("FOX"), a former majority owned subsidiary of the Company that is publicly traded on the NASDAQ Stock Market under the ticker "FOXF," is a designer, manufacturer and marketer of high-performance ride dynamic products used primarily for bicycles, side-by-side vehicles, on-road vehicles with off-road capabilities, off-road vehicles and trucks, all-terrain vehicles, snowmobiles, specialty vehicles and applications, and motorcycles. The Company held a 14% ownership interest as of January 1, 2017. The investment in FOX was accounted for using the fair value option.

In March 2017, FOX closed on a secondary public offering (the "March 2017 Offering") through which the Company sold their remaining 5,108,718 shares in FOX for total net proceeds of $136.1 million. Subsequent to the March 2017 Offering, the Company no longer holds an ownership interest in FOX.

Note G — Goodwill and Other Intangible Assets

As a result of acquisitions of various businesses, the Company has significant intangible assets on its balance sheet that include goodwill and indefinite-lived intangibles. The Company's goodwill and indefinite-lived intangibles are tested and reviewed for impairment annually as of March 31st or more frequently if facts and circumstances warrant by comparing the fair value of each reporting unit to its carrying value. Each of the Company's businesses represent a reporting unit, except Arnold, which the Company determined comprised three reporting units when it was acquired in March 2012. As a result of changes implemented by Arnold management during 2016 and 2017, the Company reassessed the reporting units at Arnold as of the annual impairment testing date in 2018. After evaluating changes in the operation of the reporting units that led to increased integration and altered how the financial results of the Arnold operating segment were assessed by Arnold management, the Company determined that the previously identified reporting units no longer operate in the same manner as they did when the Company acquired Arnold. As a result, the separate Arnold reporting units were determined to only comprise one reporting unit at the Arnold operating segment level as of March 31, 2018. As part of the exercise of combining the separate Arnold reporting units into one reporting unit, the Company will perform "before" and "after" goodwill impairment testing whereby we will preform the annual impairment testing for each of the existing reporting units of Arnold and then subsequent to the completion of the annual impairment testing of the separate reporting units, we will perform a quantitative impairment test of the Arnold operating segment, which will represent the reporting unit for future impairment tests. We expect to conclude the goodwill impairment testing during the quarter ended June 30, 2018.

Goodwill

2018 Annual Impairment Testing

The Company uses a qualitative approach to test goodwill for impairment by first assessing qualitative factors to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform quantitative goodwill impairment testing. The qualitative factors we consider include, in part, the general macroeconomic environment, industry and market specific conditions for each reporting unit, financial performance including actual versus planned results and results of relevant prior periods, operating costs and cost impacts, as well as issues or events specific to the reporting unit. For the reporting units that were tested qualitatively, the results of the qualitative analysis indicated that the fair value exceeded their carrying value. At March 31, 2018, we determined that the Flexmag reporting unit required additional quantitative testing because we could not conclude that the fair value of the reporting unit exceeded its carrying value based on

qualitative factors alone. We expect to conclude the goodwill impairment testing during the quarter ended June 30, 2018.

2017 Interim Impairment Testing

Manitoba Harvest

The Company performed quantitative testing during the 2017 annual impairment testing for Manitoba Harvest, the results of which indicated that the fair value of Manitoba Harvest exceeded the carrying value. As a result of operating results that were below forecasted amounts, as well as a failure of the financial covenants associated with the intercompany credit facility, we determined that a triggering event had occurred at Manitoba Harvest in the fourth quarter of 2017. We performed impairment testing of the goodwill and indefinite lived tradename at December 31, 2017. For the quantitative impairment test at Manitoba Harvest, we utilized an income approach. The weighted average cost of capital used in the income approach at Manitoba Harvest was 11.7%. Under the new guidance, a goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. Results of the quantitative testing of Manitoba Harvest indicated that the carrying value of Manitoba Harvest exceeded its fair value by $6.3 million, and the Company recorded $6.2 million (after the effect of foreign currency translation) as impairment expense at December 31, 2017. For the indefinite lived trade name, quantitative testing of the Manitoba Harvest tradename indicated that the carrying value exceeded its fair value by $2.3 million, and the Company recorded $2.3 million (after the effect of foreign currency translation) of impairment expense at December 31, 2017. The Company finalized the Manitoba Harvest impairment testing during the first quarter of 2018 with no changes to the impairment expense recorded as of December 31, 2017.

2017 Annual Goodwill Impairment Testing

At March 31, 2017, we determined that the Manitoba Harvest reporting unit required further quantitative testing because we could not conclude that the fair value of the reporting unit exceeds its carrying value based on qualitative factors alone. The Company utilized an income approach to perform the Step 1 testing at Manitoba Harvest. The weighted average cost of capital used in the income approach for Manitoba Harvest was 12.0%. Results of the Step 1 quantitative testing of Manitoba Harvest indicated that the fair value of Manitoba Harvest exceeded its carrying value by 15.0%. Manitoba Harvest's goodwill balance as of the date of the annual impairment testing was approximately $44.5 million. For the reporting units that were tested qualitatively, the Company concluded that the results of the qualitative analysis indicated that the fair value of those reporting units exceeded their carrying value and that a quantitative analysis was not necessary.

2016 Interim goodwill impairment testing

Arnold

As a result of decreases in forecasted revenue, operating income and cash flows at Arnold, as well as a shortfall in revenue and operating income during the latter half of 2016 as compared to budgeted amounts, the Company performed interim goodwill impairment testing on each of the three reporting units at Arnold. Based on the results of the impairment, the fair value of the Flexmag and PTM reporting units exceeded the carrying amount, therefore, no additional goodwill testing was required. The results of the impairment test for the PMAG unit indicated a potential impairment of goodwill and the Company performed additional impairment testing to determine the amount of impairment of the PMAG reporting unit.

The Company had not completed the impairment analysis of PMAG as of December 31, 2016, and therefore estimated a range of impairment loss of $14 million to $19 million based on the value of the total invested capital of the PMAG unit as well as the results of the testing of the fair value of PMAG. The Company recorded an estimated impairment loss for PMAG of $16 million at December 31, 2016 based on that range. The Company completed the goodwill impairment test of the PMAG reporting unit in the first quarter of 2017, and the results indicated total impairment of the goodwill of the PMAG reporting unit of $24.9 million. The impairment was higher than the initial estimate at December 31, 2016 due primarily to the valuation of PMAG's property, plant and equipment during the impairment exercise. The Company recorded the additional impairment loss of $8.9 million in the first quarter of 2017.

A summary of the net carrying value of goodwill at March 31, 2018 and December 31, 2017, is as follows (in thousands):

	Three months ended March 31, 2018	Year ended December 31, 2017
Goodwill - gross carrying amount	$759,429	$562,842
Accumulated impairment losses	(31,153)	(31,153)
Goodwill - net carrying amount	$728,276	$531,689

The following is a reconciliation of the change in the carrying value of goodwill for the three months ended March 31, 2018 by operating segment (in thousands):

	Balance at January 1, 2018	Acquisitions (1)	Goodwill Impairment	Foreign currency translation	Other	Balance at March 31, 2018
5.11	$92,966	$ —	$ —	$ —	$ —	$92,966
Crosman	49,352	—	—	—	70	49,422
Ergobaby	61,031	—	—	—	—	61,031
Liberty	32,828	—	—	—	—	32,828
Manitoba Harvest	41,024	—	—	(1,114)	—	39,910
ACI	58,019	—	—	—	—	58,019
Arnold (2)	26,903	—	—	—	—	26,903
Clean Earth	119,099	4,778	—	—	—	123,877
Foam Fabricators	—	71,489	—	—	—	71,489
Sterno	41,818	121,364	—	—	—	163,182
Corporate (3)	8,649	—	—	—	—	8,649
Total	$531,689	$ 197,631	$ —	$ (1,114)	$ 70	$728,276

(1) The purchase price allocation for Foam Fabricators is preliminary and is expected to be completed during the second quarter of 2018. Clean Earth and Sterno each completed add-on acquisitions during 2018. The goodwill related to the Clean Earth acquisition is based on a preliminary purchase price allocation. The preliminary purchase price allocations for the Sterno add-on acquisition has not been prepared yet. The goodwill related to this add-on acquisitions represents the excess of purchase price over net assets acquired at March 31, 2018.

(2) Arnold Magnetics had three reporting units at March 31, 2018, PMAG, Flexmag and Precision Thin Metals with goodwill balances of $15.6 million, $4.8 million and $6.5 million, respectively.

(3) Represents goodwill resulting from purchase accounting adjustments not "pushed down" to the ACI segment. This amount is allocated back to the ACI segment for purposes of goodwill impairment testing.

Long lived assets

Annual indefinite lived impairment testing

The Company used a qualitative approach to test indefinite lived intangible assets for impairment by first assessing qualitative factors to determine whether it is more-likely-than-not that the fair value of an indefinite lived intangible asset is impaired as a basis for determining whether it is necessary to perform quantitative impairment testing. The Company evaluated the qualitative factors of each reporting unit that maintains indefinite lived intangible assets in connection with the annual impairment testing for 2018 and 2017. Results of the qualitative analysis indicate that the carrying value of the Company’s indefinite lived intangible assets did not exceed their fair value. The Manitoba Harvest trade name was tested for impairment as part of the interim impairment testing for Manitoba Harvest at December 31, 2017 as noted above, resulting in impairment expense of $2.3 million at December 31, 2017.

Other intangible assets are comprised of the following at March 31, 2018 and December 31, 2017 (in thousands):

	March 31, 2018			December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$454,562	$ (107,882)	$346,680	$338,719	$ (102,271)	$236,448
Technology and patents	48,760	(23,386)	25,374	49,075	(22,492)	26,583
Trade names, subject to amortization	187,275	(25,783)	161,492	182,976	(22,518)	160,458
Licensing and non-compete agreements	7,965	(6,600)	1,365	7,965	(6,488)	1,477
Permits and airspace	115,230	(33,482)	81,748	115,230	(31,026)	84,204
Distributor relations and other	726	(676)	50	726	(646)	80
Total	814,518	(197,809)	616,709	694,691	(185,441)	509,250
Trade names, not subject to amortization	70,913	—	70,913	71,267	—	71,267
Total intangibles, net	$885,431	$ (197,809)	$687,622	$765,958	$ (185,441)	$580,517

Amortization expense related to intangible assets was $12.7 million for the three months ended March 31, 2018, and $10.3 million for the three months ended March 31, 2017, respectively. Estimated charges to amortization expense of intangible assets over the next five years, is as follows (in thousands):

April 1, through Dec. 31, 2018	$53,412
2019	70,163
2020	60,542
2021	50,829
2022	49,150
	$284,096

Note H — Warranties

The Company's Crosman, Ergobaby and Liberty operating segments estimate their exposure to warranty claims based on both current and historical product sales data and warranty costs incurred. The Company assesses the adequacy of its recorded warranty liability quarterly and adjusts the amount as necessary. A reconciliation of the change in the carrying value of the Company's warranty liability for the three months ended March 31, 2018 and the year ended December 31, 2017 is as follows (in thousands):

	Three months ended March 31, 2018	Year ended December 31, 2017
Warranty liability:		
Beginning balance	$2,197	$ 1,258
Provision for warranties issued during the period	602	1,982
Fulfillment of warranty obligations	(888)	(1,552)
Other [(1)]	—	509
Ending balance	$1,911	$ 2,197

[(1)] Represents the warranty liability recorded in relation to the Crosman acquisition in June 2017 and an add-on acquisition by Crosman in July 2017.

Note I — Debt

2014 Credit Facility

The 2014 Credit Facility is secured by all of the assets of the Company, including all of its equity interests in, and loans to, its consolidated subsidiaries. The Company amended the 2014 Credit Facility in June 2015, primarily to allow for intercompany loans to, and the acquisition of, Canadian-based companies on an unsecured basis, and to modify provisions that would allow for early termination of a "Leverage Increase Period," thereby providing additional flexibility as to the timing of subsequent acquisitions. On August 15, 2016, the Company amended the 2014 Credit Facility to, among other things, increase the aggregate amount of the 2014 Credit Facility by $400 million. On August 31, 2016, the Company entered into an Incremental Facility Amendment to the 2014 Credit Agreement (the "Incremental Facility Amendment"). The Incremental Facility Amendment provided for an increase to the 2014 Revolving Credit Facility of $150 million, and the 2016 Incremental Term Loan, in the amount of $250 million. As a result of the Incremental Facility Amendment, the 2014 Credit Facility currently provides for (i) a revolving credit facility of $550 million (as amended from time to time, the "2014 Revolving Credit Facility"), (ii) a $325 million term loan (the "2014 Term Loan Facility"), and (iii) a $250 million incremental term loan (the "2016 Incremental Term Loan").

2014 Revolving Credit Facility

The 2014 Revolving Credit Facility will become due in June 2019. The Company can borrow, prepay and reborrow principal under the 2014 Revolving Credit Facility from time to time during its term. Advances under the 2014 Revolving Credit Facility can be either LIBOR rate loans (as defined below) or base rate loans. LIBOR rate revolving loans bear interest at a rate per annum equal to the London Interbank Offered Rate (the "LIBOR Rate") plus a margin ranging from 2.00% to 2.75% based on the ratio of consolidated net indebtedness to adjusted consolidated earnings before interest expense, tax expense and depreciation and amortization expenses (the "Consolidated Leverage Ratio"). Base rate revolving loans bear interest at a fluctuating rate per annum equal to the greatest of (i) the prime rate of interest, or (ii) the Federal Funds Rate plus 0.50% (the "Base Rate"), plus a margin ranging from 1.00% to 1.75% based upon the Consolidated Leverage Ratio.

Term Loans

2014 Term Loan Facility

The 2014 Term Loan Facility expires in June 2021 and requires quarterly payments that commenced September 30, 2014, with a final payment of all remaining principal and interest due on June 6, 2021. The 2014 Term Loan Facility was issued at an original issue discount of 99.5% of par value.

2016 Incremental Term Loan

The 2016 Incremental Term Loan was issued at an original issue discount of 99.25% of par value. The Company incurred $6.0 million in additional debt issuance costs related to the Incremental Credit Facility, which will be recognized as expense during the remaining term of the related 2014 Revolving Credit Facility, and 2014 Term Loan and 2016 Incremental Term Loan. The Incremental Facility Amendment did not change the due dates or applicable interest rates of the 2014 Credit Agreement. The quarterly payments for the term advances under the 2014 Credit Agreement increased to approximately $1.4 million per quarter. The additional advances under the Incremental Credit Facility was a loan modification for accounting purposes. Consequently, the Company capitalized debt issuance costs of $6.0 million associated with fees charged by lenders of the Incremental Credit Facility. The capitalized debt issuance costs will be amortized over the remaining period of the 2014 Credit Facility.

In March 2017, the Company amended the 2014 Credit Facility (the "Fourth Amendment") to reduce the applicable rate of interest for the 2014 Term Loan and 2016 Incremental Term Loan. Under the Fourth Amendment, outstanding LIBOR loans bear interest at LIBOR plus an applicable rate of 2.75% and outstanding Base Rate loans bear interest at Base Rate plus 1.75%. Prior to the amendment, the outstanding term loans bore interest at LIBOR plus 3.25% or Base Rate plus 2.25%. In connection with the Fourth Amendment, the Company capitalized debt issuance costs of $1.2 million associated with fees charged by term loan lenders.

In October 2017, the Company further amended the 2014 Credit Facility (the "First Refinancing Amendment") to, in effect, refinance the 2014 Term Loan and the 2016 Incremental Term Loan (together, the “Term Loans”). Pursuant to the First Refinancing Amendment, outstanding Term Loans at LIBOR Rate bear interest at LIBOR plus an applicable rate of 2.25% and outstanding Term Loans at Base Rate bear interest at Base Rate plus 1.25%. Prior to the amendment, the outstanding Term Loans bore interest at LIBOR plus 2.75% or Base Rate plus 1.75%. In connection with the First Refinancing Amendment, the Company incurred $1.4 million of debt issuance costs associated with fees charged by term loan lenders.

Other

The 2014 Credit Facility provides for sub-facilities under the 2014 Revolving Credit Facility pursuant to which an aggregate amount of up to $100 million in letters of credit may be issued, as well as swing line loans of up to $25 million outstanding at one time. The issuance of such letters of credit and the making of any swing line loan would reduce the amount available under the 2014 Revolving Credit Facility. The Company will pay (i) commitment fees on the unused portion of the 2014 Revolving Credit Facility ranging from 0.45% to 0.60% per annum based on its Consolidated Leverage Ratio, (ii) quarterly letter of credit fees, and (iii) administrative and agency fees.

The following table provides the Company's debt holdings at March 31, 2018 and December 31, 2017 (in thousands):

	March 31, 2018	December 31, 2017
Revolving Credit Facility	$390,500	$42,000
Term Loan	558,551	559,973
Original issue discount	(3,228)	(3,483)
Debt issuance costs - term loan	(7,839)	(8,458)
Total debt	$937,984	$590,032
Less: Current portion, term loan facilities	(5,685)	(5,685)
Long term debt	$932,299	$584,347

Net availability under the 2014 Revolving Credit Facility was approximately $159.2 million at March 31, 2018. Letters of credit outstanding at March 31, 2018 totaled approximately $0.3 million. At March 31, 2018, the Company was in compliance with all covenants as defined in the 2014 Credit Facility.

Debt Issuance Costs

Deferred debt issuance costs represent the costs associated with the entering into the 2014 Credit Facility as well as amendments to the 2014 Credit Facility, and are amortized over the term of the related debt instrument. Since the Company can borrow, repay and reborrow principal under the 2014 Revolving Credit Facility, the debt issuance costs associated with this facility have been classified as other non-current assets in the accompanying consolidated balance sheet. The debt issuance costs associated with the 2014 Term Loan and 2016 Incremental Term Loan are classified as a reduction of long-term debt in the accompanying consolidated balance sheet.

The following table summarizes debt issuance costs at March 31, 2018 and December 31, 2017, and the balance sheet classification in each of the periods presents (in thousands):

	March 31, 2018	December 31, 2017
Deferred debt issuance costs	$21,628	$ 21,491
Accumulated amortization	(11,347)	(10,250)
Deferred debt issuance costs, less accumulated amortization	$10,281	$ 11,241
Balance Sheet classification:		
Other non-current assets	$2,441	$ 2,783
Long-term debt	7,840	8,458
	$10,281	$ 11,241

Note J — Derivative Instruments and Hedging Activities

On September 16, 2014, the Company purchased an interest rate swap ("New Swap") with a notional amount of $220 million. The New Swap is effective April 1, 2016 through June 6, 2021, the termination date of the 2014 Term Loan. The agreement requires the Company to pay interest on the notional amount at the rate of 2.97% in exchange for the three-month LIBOR rate. At March 31, 2018 and December 31, 2017, the New Swap had a fair value loss of $2.5 million and $6.1 million, respectively, principally reflecting the present value of future payments and receipts under the agreement.

The Company did not elect hedge accounting for the above derivative transaction and as a result, periodic mark-to-market changes in fair value are reflected as a component of interest expense in the consolidated statement of operations.

The following table reflects the classification of the Company's interest rate swap on the consolidated balance sheets at March 31, 2018 and December 31, 2017 (in thousands):

	March 31, 2018	December 31, 2017
Other current liabilities	$ 1,334	$ 2,468
Other noncurrent liabilities	1,165	3,639
Total fair value	$ 2,499	$ 6,107

Note K — Fair Value Measurement

The following table provides the assets and liabilities carried at fair value measured on a recurring basis at March 31, 2018 and December 31, 2017 (in thousands):

	Fair Value Measurements at March 31, 2018			
	Carrying Value	Level 1	Level 2	Level 3
Liabilities:				
Put option of noncontrolling shareholders [1]	$(178)	$ —	$ —	$(178)
Contingent consideration - acquisitions [2]	(25,000)	—	—	(25,000)
Interest rate swap	(2,499)	—	(2,499)	—
Total recorded at fair value	$(27,677)	$ —	$(2,499)	$(25,178)

(1) Represents put option issued to noncontrolling shareholders in connection with the 5.11 Tactical and Liberty acquisitions.

(2) Represents potential earn-out payable by Sterno for the acquisition of Rimports. The preliminary purchase allocation of Rimports has not been prepared, therefore the earn out has been recorded at the settlement amount at March 31, 2018.

	Fair Value Measurements at December 31, 2017			
	Carrying Value	Level 1	Level 2	Level 3
Liabilities:				
Put option of noncontrolling shareholders	$(178)	—	—	$(178)
Interest rate swap	(6,107)	—	(6,107)	—
Total recorded at fair value	$(6,285)	$ —	$(6,107)	$(178)

Reconciliations of the change in the carrying value of the Level 3 fair value measurements from January 1, 2017 through March 31, 2018 are as follows (in thousands):

	Level 3
Balance at January 1, 2017	$(5,010)
Contingent consideration - Sterno Home	(382)
Payment of contingent consideration - Sterno Home	475
Reversal of contingent consideration - Baby Tula	3,780
Reversal of contingent consideration - Sterno Home	956
Change in noncontrolling shareholder put options	3
Balance at January 1, 2018	$(178)
Contingent consideration - acquisition [1]	(25,000)
Balance at March 31, 2018	$(25,178)

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(1) The contingent consideration relates to Sterno's acquisition of Rimports in February 2018. The purchase price of Rimports includes a potential earn-out of up to $25 million contingent on the attainment of certain future performance criteria of Rimports for the twelve-month period from May 1, 2017 to April 30, 2018 and the fourteen month period from March 1, 2018 to April 30, 2019. The fair value of the contingent consideration related to the earn-out has not yet been determined therefore the contingent consideration is reflected in the condensed consolidated balance sheet at the full settlement amount.

Valuation Techniques

The Company has not changed its valuation techniques in measuring the fair value of any of its other financial assets and liabilities during the period. For details of the Company’s fair value measurement policies under the fair value hierarchy, refer to the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

2014 Term Loan and 2016 Incremental Term Loan

At March 31, 2018, the carrying value of the principal under the Company’s outstanding Term Loans, including the current portion, was $558.6 million, which approximates fair value because it has a variable interest rate that reflects market changes in interest rates and changes in the Company's net leverage ratio. The estimated fair value of the outstanding 2014 Term Loan is based on quoted market prices for similar debt issues and is, therefore, classified as Level 2 in the fair value hierarchy.

Nonrecurring Fair Value Measurements

The following table provides the assets carried at fair value measured on a non-recurring basis as of December 31, 2017. There was no assets carried at fair value on a non-recurring basis at March 31, 2018.

(1) Represents the fair value of the goodwill of the Arnold business segment. Refer to Note G - "Goodwill and Other Intangible Assets" for further discussion regarding the impairment and valuation techniques applied.

	Fair Value Measurements at December 31, 2017				Year ended
(in thousands)	Carrying Value	Level 1	Level 2	Level 3	Expense
Goodwill - Arnold	$26,903	—	—	$26,903	$ 8,864
Goodwill - Manitoba Harvest	41,024	—	—	41,024	6,188
Tradename - Manitoba Harvest	10,834	—	—	10,834	2,273

Note L — Stockholders’ Equity

Trust Common Shares

The Trust is authorized to issue 500,000,000 Trust shares and the Company is authorized to issue a corresponding number of LLC interests. The Company will at all times have the identical number of LLC interests outstanding as Trust shares. Each Trust share represents an undivided beneficial interest in the Trust, and each Trust share is entitled to one vote per share on any matter with respect to which members of the Company are entitled to vote.

Trust Preferred Shares

The Trust is authorized to issue up to 50,000,000 Trust preferred shares and the Company is authorized to issue a corresponding number of trust preferred interests.

Series B Preferred Shares

On March 13, 2018, the Trust issued 4,000,000 7.875% Series B Preferred Shares (the "Series B Preferred Shares") with a liquidation preference of 25.00 per share, for gross proceeds of $100.0 million, or $96.7 million net of underwriters' discount and issuance costs. Distributions on the Series B Preferred Shares will be payable quarterly in arrears, when and as declared by the Company's board of directors on January 30, April 30, July 30, and October 30 of each year, beginning on July 30, 2018, at a rate per annum of 7.875%. Distributions on the Series B Preferred Shares are cumulative. Unless full cumulative distributions on the Series B Preferred Shares have been or contemporaneously are declared and set apart for payment of the Series B Preferred Shares for all past distribution periods, no distribution may be declared or paid for payment on the Trust common shares. The Series B Preferred Shares are not convertible into Trust common shares and have no voting rights, except in limited circumstances as provided for in the share designation for the preferred shares.

The Series B Preferred Shares may be redeemed at the Company's option, in whole or in part, at any time after April 30, 2028, at a price of $25.00 per share, plus any accumulated and unpaid distributions (thereon whether authorized or declared) to, but excluding, the redemption date. Holders of Series B Preferred Shares will have no right to require the redemption of the Series B Preferred Shares and there is no maturity date.

If a certain tax redemption event occurs prior to April 30, 2028, the Series B Preferred Shares may be redeemed at the Company's option, in whole but not in part, upon at least 30 days' notice, within 60 days of the occurrence of such tax redemption event, at a price of $25.25 per share, plus accumulated and unpaid distributions to, but excluding, the redemption date. If a certain fundamental change related to the Series B Preferred Shares or the Company occurs (whether before, on or after April 30, 2028), the Company will be required to repurchase the Series B Preferred Shares at a price of $25.25 per share, plus accumulated and unpaid distributions to, but excluding, the date of purchase. If (i) a fundamental change occurs and (ii) the Company does not give notice prior to the 31st day following the fundamental change to repurchase all the outstanding Series B Preferred Shares, the distribution rate per annum on the Series B Preferred Shares will increase by 5.00%, beginning on the 31st day following such fundamental change. Notwithstanding any requirement that the Company repurchase all of the outstanding Series A Preferred Shares, the increase in the distribution rate is the sole remedy to holders in the event the Company fails to do so, and following any such increase, the Company will be under no obligation to repurchase any Series A Preferred Shares.

Series A Preferred Shares

On June 28, 2017, the Trust issued 4,000,000 7.250% Series A Preferred Shares (the "Series A Preferred Shares") with a liquidation preference of $25.00 per share, for gross proceeds of $100.0 million, or $96.4 million net of underwriters' discount and issuance costs. When, and if declared by the Company's board of directors, distribution on the Series A Preferred Shares will be payable quarterly on January 30, April 30, July 30, and October 30 of each year, beginning on October 30, 2017, at a rate per annum of 7.250%. Distributions on the Series A Preferred Shares are discretionary and non-cumulative. The Company has no obligation to pay distributions for a quarterly distribution period if the board of directors does not declare the distribution before the scheduled record of date for the period, whether or not distributions are paid for any subsequent distribution periods with respect to the Series A Preferred Shares, or the Trust common shares. If the Company's board of directors does not declare a distribution for the Series A Preferred Shares for a quarterly distribution period, during the remainder of that quarterly distribution period the Company cannot declare or pay distributions on the Trust common shares. The Series A Preferred Shares are not convertible into Trust common shares and have no voting rights, except in limited circumstances as provided for in the share designation for the preferred shares.

Profit Allocation Interests

The Allocation Interests represent the original equity interest in the Company. The holders of the Allocation Interests ("Holders") are entitled to receive distributions pursuant to a profit allocation formula upon the occurrence of certain events. The distributions of the profit allocation are paid upon the occurrence of the sale of a material amount of capital stock or assets of one of the Company's businesses ("Sale Event") or, at the option of the Holders, at each five-year anniversary date of the acquisition of one of the Company's businesses ("Holding Event"). The Company records distributions of the profit allocation to the Holders upon occurrence of a Sale Event or Holding Event as distributions declared on Allocation Interests to stockholders' equity when they are approved by the Company's board of directors.

The sale of FOX shares in March 2017 (refer to Note F - "Investment in FOX") qualified as a Sale Event under the Company's LLC Agreement. In April 2017, with respect to the March 2017 Offering, the Company's board of directors approved and declared a profit allocation payment totaling $25.8 million that was paid in the second quarter of 2017.

The sale of FOX shares in March 2016 (refer to Note F - "Investment in FOX") qualified as a Sale Event under the Company's LLC Agreement. In April 2016, with respect to the March 2016 Offering, the Company's board of directors approved and declared a profit allocation payment totaling $8.6 million that was paid to Holders during the second quarter of 2016. In November 2016, with respect to the sale of FOX shares in August 2016 and the sale of Tridien, both qualifying as Sale Events, the Company's board of directors approved and declared a profit allocation payment of $7.0 million that was paid during the fourth quarter of 2016. In the fourth quarter of 2016, the Company's board of directors declared a profit allocation payment to the Allocation Interest Holders of $13.4 million related to the FOX November Offering (refer to Note F - "Investment in FOX"). This amount was paid in the first quarter of 2017.

Earnings per share

The Company calculates basic and diluted earnings per share using the two-class method which requires the Company to allocate to participating securities that have rights to earnings that otherwise would have been available only to Trust shareholders as a separate class of securities in calculating earnings per share. The Allocation Interests are considered participating securities that contain participating rights to receive profit allocations upon the occurrence of a Holding Event or Sale Event. The calculation of basic and diluted earnings per share for the three months ended March 31, 2018 and 2017 reflects the incremental increase during the period in the profit allocation distribution to Holders related to Holding Events.

Basic and diluted earnings per share for the three months ended March 31, 2018 and 2017 attributable to Holdings is calculated as follows (in thousands, except per share data):

	Three months ended March 31,	
	2018	2017
Loss from continuing operations attributable to common shares of Holdings	$(4,154)	$(35,299)
Less: Effect of contribution based profit - Holding Event	1,400	1,258
Loss from continuing operation attributable to common shares of Holdings	$(5,554)	$(36,557)
Income from discontinued operations attributable to Holdings	$—	$340
Income from discontinued operations attributable to common shares of Holdings	$—	$340
Basic and diluted weighted average common shares outstanding	59,900	59,900
Basic and fully diluted income (loss) per common share attributable to Holdings		
Continuing operations	$(0.09)	$(0.61)
Discontinued operations	—	0.01
	$(0.09)	$(0.60)

Distributions

The following table summarizes information related to our quarterly cash distributions on our Trust common and preferred shares:

Period	Cash Distribution per Share	Total Cash Distributions (in thousands)	Record Date	Payment Date
Trust Common Shares:				
January 1, 2018 - March 31, 2018 [1]	$0.36	$ 21,564	April 19, 2018	April 26, 2018
October 1, 2017 - December 31, 2017	$0.36	$ 21,564	January 19, 2018	January 25, 2018
July 1, 2017 - September 30, 2017	$0.36	$ 21,564	October 19, 2017	October 26, 2017
April 1, 2017 - June 30, 2017	$0.36	$ 21,564	July 20, 2017	July 27, 2017
January 1, 2017 - March 31, 2017	$0.36	$ 21,564	April 20, 2017	April 27, 2017
October 1, 2016 - December 31, 2016	$0.36	$ 21,564	January 19, 2017	January 26, 2017
Series A Preferred Shares:				
January 30, 2018 - April 29, 2018 [1]	$0.453125	$ 1,813	April 15, 2018	April 30, 2018
October 30, 2017 - January 29, 2018	$0.453125	$ 1,813	January 15, 2018	January 30, 2018
June 28, 2017 - October 29, 2017	$0.61423611	$ 2,457	October 15, 2017	October 30, 2017

[1] This distribution was declared on April 5, 2018.

Note M — Noncontrolling Interest

Noncontrolling interest represents the portion of the Company's majority owned subsidiary's net income (loss) and equity that is owned by noncontrolling shareholders. The following tables reflect the Company's ownership percentage of its majority owned operating segments and related noncontrolling interest balances as of March 31, 2018 and December 31, 2017:

	% Ownership [1] March 31, 2018		% Ownership [1] December 31, 2017						
	Primary	Fully Diluted	Primary	Fully Diluted					
5.11 Tactical	97.5	85.4	97.5	85.5					
Crosman	98.8	89.2	98.8	89.2					
Ergobaby	82.7	76.2	82.7	76.6					
Liberty	88.6	85.2	88.6	84.7					
Manitoba Harvest	76.6	67.0	76.6	67.0					
ACI	69.4	69.2	69.4	69.2					
Arnold Magnetics	96.7	79.9		19,136	38.1 %				
Other operating expenses of consolidated investment products	3,515		8,531		6,953	(5,016)	(58.8)%	1,578	22.7 %
Restructuring and severance	87		10,580		4,270	(10,493)	(99.2)%	6,310	147.8%
Depreciation and other amortization	4,597		3,497		3,092	1,100	31.5 %	405	13.1 %
Amortization expense	25,142		12,173		2,461	12,969	106.5 %	9,712	394.6%
Total operating expenses	$ 439,136		$ 367,572		$271,740	$71,564	19.5 %	$95,832	35.3 %

Employment Expenses

Employment expenses primarily consist of fixed and variable compensation and related employee benefit costs.

Year ended December 31, 2018 compared to year ended December 31, 2017. Employment expenses of $238.5 million increased $47.1 million, or 24.6%, from the prior year ended December 31, 2017. The increase reflects the addition of employees from the Acquired Businesses and higher profit-based compensation primarily related to increased profits at our affiliates.

Year ended December 31, 2017 compared to year ended December 31, 2016. Employment expenses of $191.4 million increased $55.8 million, or 41.1%, from the prior year. The increase reflected $30.9 million of employment expenses as a result of the June 1, 2017 addition of employees from the RW Acquisition and higher sales-based and profit-based compensation, due to a 40.7% increase in total sales and increased profits at our affiliates.

Distribution and Other Asset-Based Expenses

Distribution and other asset-based expenses consist primarily of payments to third-party distribution partners for providing services to investors in our funds and payments to third-party service providers for investment management-related services. These payments are primarily based on percentages of assets under management or revenues. These expenses also include the amortization of deferred sales commissions related to up-front commissions on shares sold without a front-end sales charge to shareholders. The deferred sales commissions are amortized on a straight-line basis over the periods in which commissions are generally recovered from distribution fee revenues and contingent sales charges received from shareholders of the funds upon redemption of their shares.

Year ended December 31, 2018 compared to year ended December 31, 2017. Distribution and other asset-based expenses increased $20.5 million, or 28.4%, from the prior year due to the adoption of ASC 606 which resulted in the gross presentation of front-end sales charges earned and paid on certain open-end mutual fund share classes. Additionally, there were increased asset-based shareholder service fees to financial intermediaries related to mutual funds from the RW Acquisition, as compared to the prior year.

Year ended December 31, 2017 compared to year ended December 31, 2016. Distribution and other asset-based expenses increased $2.9 million, or 4.3%, from the prior year primarily due to increased asset-based shareholder service fees to financial intermediaries related to mutual funds from the RW Acquisition.

Other Operating Expenses

Other operating expenses primarily consist of investment research and technology costs, professional fees, travel and distribution related costs, rent and occupancy expenses, and other business costs.

Year ended December 31, 2018 compared to year ended December 31, 2017. Other operating expenses increased $5.4 million, or 7.8%, to $74.9 million for the year ended December 31, 2018 from the prior year primarily due to the Acquired Businesses.

Year ended December 31, 2017 compared to year ended December 31, 2016. Other operating expenses increased $19.1 million, or 38.1%, to $69.4 million for the year ended December 31, 2017 from the prior year primarily due to $9.7 million of acquisition and integration expenses from professional fees and other operating expenses relating to the RW Acquisition.

Other Operating Expenses of Consolidated Investment Products

Year ended December 31, 2018 compared to year ended December 31, 2017. Other operating expenses of consolidated investment products decreased $5.0 million, or 58.8%, to $3.5 million for the year ended December 31, 2018 from the prior year primarily due to non-recurring refinancing costs incurred in the prior year for one of our consolidated CLOs.

Year ended December 31, 2017 compared to year ended December 31, 2016. Other operating expenses of consolidated investment products increased $1.6 million, or 22.7%, to $8.5 million for the year ended December 31, 2017 from the prior year primarily due to $1.5 million in higher operating expenses attributable to the addition of four consolidated investment products as a result of the RW Acquisition.

Restructuring and Severance

Year ended December 31, 2018 compared to year ended December 31, 2017. During the year ended December 31, 2017, we incurred $10.6 million in restructuring and severance costs primarily related to the RW Acquisition, comprised of $9.6 million in severance costs related to staff reductions and $1.0 million in restructuring costs related to future lease obligations and leasehold improvement write-offs. We did not incur significant restructuring and severance costs in the current year.

Year ended December 31, 2017 compared to year ended December 31, 2016. During the year ended December 31, 2017, we incurred $10.6 million in restructuring and severance costs primarily related to the RW Acquisition, which resulted in $9.6 million in severance costs related to staff reductions and $1.0 million in restructuring costs related to future lease obligations and leasehold improvement write-offs. We incurred $4.3 million in restructuring and severance costs for the year ended December 31, 2016. Approximately $3.9 million was related to severance costs associated with staff reductions, primarily in business support areas, and $0.4 million related to future lease obligations and leasehold improvements for vacated office space.

Depreciation and Other Amortization

Depreciation and other amortization consists primarily of the straight-line depreciation of furniture, equipment and leasehold improvements.

Year ended December 31, 2018 compared to year ended December 31, 2017. Depreciation and other amortization increased $1.1 million, or 31.5%, to $4.6 million for the year ended December 31, 2018 primarily due to an increase in assets as a result of the Acquired Businesses.

Year ended December 31, 2017 compared to year ended December 31, 2016. Depreciation and other amortization expense increased $0.4 million, or 13.1%, to $3.5 million for the year ended December 31, 2017 primarily due to an increase in assets as a result of the RW Acquisition.

Amortization Expense

Amortization expense consists of the amortization of definite-lived intangible assets, over their estimated useful lives.

Year ended December 31, 2018 compared to year ended December 31, 2017. Amortization expense increased $13.0 million, or 106.5%, to $25.1 million for the year ended December 31, 2018 primarily due to an increase in definite lived intangible assets as a result of the Acquired Businesses.

Year ended December 31, 2017 compared to year ended December 31, 2016. Amortization expense increased $9.7 million, or 394.6%, to $12.2 million for the year ended December 31, 2017 primarily due to an increase in definite lived intangible assets as a result of the RW Acquisition.

Other Income (Expense), net

Other Income (Expense), net by category were as follows:

	Years Ended December 31,			Change			
($ in thousands)	2018	2017	2016	2018 vs. 2017	%	2017 vs. 2016	%
Other Income (Expense)							
Realized and unrealized gain (loss) on investments, net	$(5,217)	$2,973	$4,982	$(8,190)	(275.5)%	$(2,009)	40.3 %
Realized and unrealized gain (loss) on investments of consolidated investment products, net	(21,252)	13,553	2,748	(34,805)	(256.8)%	10,805	(393.2)%
Other income (expense), net	3,289	1,635	1,089	1,654	101.2 %	546	50.1 %
Total Other Income (Expense), net	$(23,180)	$18,161	$8,819	$(41,341)	(227.6)%	$9,342	(105.9)%

Realized and Unrealized Gain (Loss) on Investments, net

Year ended December 31, 2018 compared to year ended December 31, 2017. Realized and unrealized gain (loss) on investments, net decreased for the year ended December 31, 2018 by $8.2 million from the prior year. The realized and unrealized losses on investments, net during the year ended December 31, 2018 were primarily attributable to unrealized losses on investments in international equity and alternative strategies, consistent with broad equity market indices. The realized and unrealized gains on investments, net during the year ended December 31, 2017 primarily consisted of unrealized gains on investments in domestic equity strategies.

Year ended December 31, 2017 compared to year ended December 31, 2016. Realized and unrealized gain (loss) on investments, net decreased for the year ended December 31, 2017 by $2.0 million from the prior year. The realized and unrealized gains on investments, net during the year ended December 31, 2017 were primarily attributable to unrealized gains on our domestic equity strategies. The realized and unrealized gains on investments, net during the year ended December 31, 2016 primarily consisted of a realized gain of approximately $2.9 million on the sale of one of our equity method investments and unrealized gains of $1.3 million from small cap and emerging market equity strategies.

Realized and Unrealized Gain (Loss) on Investments of Consolidated Investment Products, net

Year ended December 31, 2018 compared to year ended December 31, 2017. Realized and unrealized gain (loss), net on investments of consolidated investment products decreased $34.8 million from the prior year. The decrease primarily consisted of unrealized losses of $47.6 million on the investments of our CIPs, primarily due to changes in market values of leveraged loans, partially offset by $12.8 million in changes on the notes payable.

Year ended December 31, 2017 compared to year ended December 31, 2016. Realized and unrealized gains, net on investments of consolidated investment products increased by $10.8 million from the prior year. The increase primarily consisted of $15.3 million in changes on the notes payable, partially offset by unrealized losses of $1.8 million on the investments of our CIPs.

Other Income (Expense), net

Year ended December 31, 2018 compared to year ended December 31, 2017. Other income (expense), net increased during the year ended December 31, 2018 by $1.7 million, or 101.2%, as compared to the prior year. The increase was due to higher earnings on equity method investments.

Year ended December 31, 2017 compared to year ended December 31, 2016. Other income (expense), net increased $0.6 million, or 50.1% compared to the prior year due to higher earnings on equity method investments and the RW Acquisition.

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Interest Income, net

Interest Income, (Expense), net by category were as follows:

	Years Ended December 31,			Change			
($ in thousands)	2018	2017	2016	2018 vs. 2017	%	2017 vs. 2016	%
Interest Income (Expense)							
Interest expense	$(19,445)	$(12,007)	$(679)	$(7,438)	61.9 %	$(11,328)	(1,668.3)%
Interest and dividend income	4,999	2,160	$1,743	2,839	131.4%	417	23.9 %
Interest and dividend income of investments of consolidated investment products	98,356	49,323	$20,402	49,033	99.4 %	28,921	141.8 %
Interest expense of consolidated investment products	(64,788)	(35,243)	(11,292)	(29,545)	83.8 %	(23,951)	212.1 %
Total Interest Income, net	$19,122	$4,233	$10,174	$14,889	351.7%	$(5,941)	(58.4)%

Interest Expense

Year ended December 31, 2018 compared to year ended December 31, 2017. Interest expense increased $7.4 million for the year ended December 31, 2018 compared to the prior year due to the higher average level of debt outstanding compared to the prior year.

Year ended December 31, 2017 compared to year ended December 31, 2016. Interest expense increased $11.3 million for the year ended December 31, 2017 compared to the prior year due to the write-off of $1.1 million in unamortized deferred financing costs as a result of the termination of a prior credit facility and $1.2 million in delayed draw fees associated with our new credit agreement and a higher average level of debt outstanding compared to the same period in the prior year.

Interest and Dividend Income

Interest and dividend income consists of interest and dividend income earned on cash equivalents and our marketable securities.

Year ended December 31, 2018 compared to year ended December 31, 2017. Interest and dividend income increased $2.8 million, or 131.4%, in 2018 compared to the prior year primarily due to a higher concentration of our investments in CLOs as compared to the prior year.

Year ended December 31, 2017 compared to year ended December 31, 2016. Interest and dividend income increased $0.4 million, or 23.9%, in 2017 compared to the prior year primarily due to a higher concentration of dividend paying marketable securities during 2017 compared to the prior year.

Interest and Dividend Income of Investments of Consolidated Investment Products

Year ended December 31, 2018 compared to year ended December 31, 2017. Interest and dividend income of consolidated investment products increased $49.0 million, or 99.4%, compared to the prior year primarily due a higher balance of investments of our consolidated investment products due to the RW Acquisition.

Year ended December 31, 2017 compared to year ended December 31, 2016. Interest and dividend income of consolidated investment products increased $28.9 million, or 141.8%, compared to the prior year primarily due a higher balance of investments of our consolidated investment products compared to prior year.

Interest Expense of Consolidated Investment Products

Year ended December 31, 2018 compared to year ended December 31, 2017. Interest expense increased by $29.5 million, or 83.8%, compared to the prior year primarily due to higher average debt balances for our CIPs primarily from the RW Acquisition.

Year ended December 31, 2017 compared to year ended December 31, 2016. Interest expense increased by $24.0 million, or 212.1%, compared to the prior year primarily due to higher average debt balances for our CIPs.

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Income Tax Expense

Year ended December 31, 2018 compared to year ended December 31, 2017. The provision for income taxes reflected U.S. federal, state and local taxes at an estimated effective tax rate of 30.2% and 50.3% for 2018 and 2017, respectively. On December 22, 2017, the Tax Cuts and Jobs Act (the Tax Act) was enacted, which among other items reduced the federal corporate tax rate to 21% effective January 1, 2018. This decrease in tax rates was partially offset by a decrease in the tax benefit associated with valuation allowance changes related to our investments.

Year ended December 31, 2017 compared to year ended December 31, 2016. The provision for income taxes reflected U.S. federal, state and local taxes at an estimated effective tax rate of 50.3% and 30.1% for 2017 and 2016, respectively. The Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 118, which specifies, among other things, that reasonable estimates of the income tax effects of the Tax Act should be used, if determinable. Accordingly, financial results for 2017 included an increase in income tax expense of $13.1 million resulting primarily from the revaluation of deferred tax assets to reflect the new federal corporate tax rate.

Effects of Inflation

Inflationary pressures can result in increases to our cost structure, especially to the extent that large expense components such as compensation are impacted. To the degree that these expense increases are not recoverable or cannot be counterbalanced through pricing increases due to the competitive environment, our profitability could be negatively impacted. In addition, the value of the assets that we manage may be negatively impacted if inflationary expectations result in a rising interest rate environment. Declines in the values of these assets under management could lead to reduced revenues as management fees are generally earned as a percent of assets under management.

Liquidity and Capital Resources

Certain Financial Data

The following tables summarize certain financial data relating to our liquidity and capital resources:

	December 31,			Change			
($ in thousands)	2018	2017	2016	2018 vs. 2017	%	2017 vs. 2016	%
Balance Sheet Data							
Cash and cash equivalents	$201,705	$132,150	$64,588	$69,555	52.6 %	$67,562	104.6 %
Investments	79,558	108,492	89,371	(28,934)	(26.7)%	19,121	21.4 %
Debt	329,184	248,320	30,000	80,864	32.6 %	218,320	727.7 %
Redeemable noncontrolling interests	57,481	4,178	37,266	53,303	1,275.8 %	(33,088)	(88.8)%
Total equity	643,867	605,224	321,673	38,643	6.4 %	283,551	88.1 %

	Years Ended December 31,			Change			
($ in thousands)	2018	2017	2016	2018 vs. 2017	%	2017 vs. 2016	%
Cash Flow Data							
Provided by (used in)							
Operating activities	$(62,555)	$(182,859)	$20,918	$120,304	(65.8)%	$(203,777)	974.2 %
Investing activities	(121,228)	(416,994)	3,079	295,766	(70.9)%	(420,073)	13,643.2 %
Financing activities	204,157	750,464	(48,063)	(546,307)	(72.8)%	798,527	(1,661.4)%

Overview

At December 31, 2018, we had $201.7 million of cash and cash equivalents and $79.6 million of investments which includes $61.3 million of investment securities compared to $132.2 million of cash and cash equivalents and $108.5

million of investments which includes $89.8 million of investment securities at December 31, 2017.

On July 1, 2018, we closed on the acquisition of a majority interest in SGA that was funded with $105.0 million in additional term loan debt and existing balance sheet resources. At December 31, 2018, we had $340.6 million outstanding under our term loan maturing June 1, 2024 (the "Term Loan") and no outstanding borrowings under our $100.0 million

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revolving credit facility (the "Credit Facility").

Uses of Capital

Our main uses of capital related to operating activities include payments of annual incentive compensation, interest on our indebtedness, income taxes, and other operating expenses, which primarily consist of investment research, technology costs, professional fees, distribution and occupancy costs. Annual incentive compensation, which is one of the largest annual operating cash expenditures, is typically paid in the first quarter of the year. In the first quarter of 2018 and 2017, we paid approximately $74.1 million and $39.7 million, respectively, in incentive compensation earned during the years ended December 31, 2017 and 2016, respectively.

In addition to operating activities, other uses of cash could include: (i) investments in organic growth, including expanding our distribution efforts; (ii) seeding or launching new products, including seeding funds or sponsoring CLO issuances; (iii) principal payments on debt outstanding through scheduled amortization, excess cash flow payment requirements or additional paydowns; (iv) dividend payments to preferred and common stockholders; (v) common share repurchases; (vi) investments in our infrastructure; (vii) investments in inorganic growth opportunities as they arise; (viii) integration costs, including restructuring and severance, related to potential acquisitions, if any; and (ix) potential purchases of affiliate noncontrolling interests.

Capital and Reserve Requirements

We operate two broker-dealer subsidiaries registered with the SEC that are subject to certain rules regarding minimum net capital. The broker-dealers are required to maintain a ratio of "aggregate indebtedness" to "net capital," as defined, which may not exceed 15 to 1, and must also maintain a minimum amount of net capital. Failure to meet these requirements could result in adverse consequences to us including additional reporting requirements, a lower required ratio of aggregate indebtedness to net capital or interruption of our business. At December 31, 2018 and 2017, the ratio of aggregate indebtedness to net capital of our broker-dealers was below the maximum allowed, and net capital was significantly greater than the required minimum.

Balance Sheet

Cash and cash equivalents consist of cash in banks and money market fund investments. Investments consist primarily of investments in our affiliated mutual funds. Consolidated investment products primarily represent investment products to which we provide investment management services and where we have either a controlling financial interest or we are considered the primary beneficiary of an investment product that is a considered a variable interest entity.

Operating Cash Flow

Net cash used in operating activities of $62.6 million for 2018 decreased by $120.3 million from net cash used in operating activities of $182.9 million in 2017. The decrease was due to higher net income partially offset by less net purchases of investments by consolidated investment products during 2018.

Net cash used in operating activities of $182.9 million for 2017 increased by $203.8 million from net cash provided by operating activities of $20.9 million in 2016. The increase was primarily due to an increase in net purchases of investments of our consolidated investment products

Investing Cash Flow

Cash flows from investing activities consist primarily of capital expenditures and other investing activities related to our business operations. Net cash used in investing activities of $121.2 million for 2018 decreased by $295.8 million from net cash used in investing activities of $417.0 million in 2017. The primary investing activities for the year ended 2018 was the SGA Acquisition of $127.0 million.

Net cash used in investing activities of $417.0 million for 2017 decreased by $420.1 million from net cash provided by investing activities of $3.1 million in 2016. The primary investing activities for the year ended December 31, 2017 were $393.4 million of net cash used for the RW Acquisition and $21.4 million for the purchase of available for sale securities.

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Financing Cash Flow

Cash flows from financing activities consist primarily of the issuance of common and preferred stock, return of capital through repurchases of common shares, dividends, withholding obligations for the net share settlement of employee share transactions, and contributions to noncontrolling interests related to our consolidated investment products. Net cash provided by financing activities decreased $546.3 million to $204.2 million in 2018 compared to net cash provided by financing activities of $750.5 million in the prior year. The primary reason for the decrease was due to the RW Acquisition in the prior year which included the following: cash raised of $220.5 million related to the issuance of preferred stock and common stock, $244.1 million in term loan borrowings. Additionally, the prior year included $369.0 million of net borrowings by consolidated investment products. Current year activity included $81.2 million in net corporate borrowings and $187.9 million of net proceeds from the issuance of notes payable by consolidated investment products in the current year.

Net cash provided by financing activities increased $798.8 million to $750.5 million in 2017 compared to net cash used in financing activities of $48.1 million in the prior year. The primary reason for the increase was due to cash raised of $220.5 million related to the issuance of preferred stock and common stock, net of issuance costs paid, $244.1 million in term loan borrowings, net of issuance costs paid, and $369.0 million in net borrowings of our consolidated investment products. These financing cash inflows were partially offset by the repayments of $30.0 million on our terminated credit facility.

Credit Agreement

At December 31, 2018, $340.6 million was outstanding under the Term Loan, and no amounts were outstanding under the Credit Facility. In accordance with ASC 835, Interest, the amounts outstanding under the Company's Term Loan are presented on the consolidated balance sheet net of related debt issuance costs which were $11.4 million as of December 31, 2018.

Amounts outstanding under the Credit Agreement for the Term Loan and the Credit Facility bear interest at an annual rate equal to, at the option of the Company, either (i) LIBOR (adjusted for reserves) for interest periods of one, two, three or six months (or, solely in the case of the Credit Facility, if agreed to by each relevant Lender, twelve months or periods less than one month), subject to a “floor” of 0% for the Credit Facility and 0.75% for the Term Loan, or (ii) an alternate base rate, in either case plus an applicable margin. The applicable margin on amounts outstanding under the Credit Agreement, commencing as of the Effective Date, is 2.50%, in the case of LIBOR-based loans, and 1.50% in the case of alternate base rate loans, in each case subject to a 25 basis point reduction based on our secured net leverage ratio (as defined in the Credit Agreement) as of the last day of the preceding fiscal quarter being not greater than 1.00 to 1.00, as reflected in certain financial reports required under the Credit Agreement.

The Credit Agreement includes a financial maintenance covenant that we will not permit the Total Net Leverage Ratio to exceed 2.50:1.00 as of the last day of any fiscal quarter; provided that this covenant will apply only if on such day the aggregate principal amount of outstanding revolving loans and letters of credit under the Credit Facility exceeds 30% of the aggregate revolving commitments as of such day.

The Term Loan amortizes at the rate of 1.00% per annum payable in equal quarterly installments and will be mandatorily repaid with: (a) 50% of our excess cash flow, as defined in the Credit Agreement, on an annual basis, beginning with the fiscal year ended December 31, 2018, stepping down to 25% if our secured net leverage ratio declines below 1.0, and further stepping down to 0% if our secured net leverage ratio declines below 0.5; (b) the net proceeds of certain asset sales, casualty or condemnation events, subject to customary reinvestment rights; and (c) the proceeds of any indebtedness incurred other than indebtedness permitted to be incurred by the Credit Agreement.

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Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2018:

	Payments Due				
($ in millions)	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Lease obligations	$38.0	$ 6.1	$ 15.5	$ 6.9	$ 9.5
Term Loan (1)	428.6	20.3	59.8	348.5	—
Credit Facility, including commitment fee (1)	1.7	0.5	1.2	—	—
Minimum payments on service contracts (2)	8.4	7.5	0.8	0.1	—
Total	$476.7	$ 34.4	$ 77.3	$ 355.5	$ 9.5

(1) At December 31, 2018, we had $340.6 million outstanding under our Term Loan, which has a variable interest rate, and no amount outstanding under our Credit Facility. Payments due are estimated based on the variable interest rate and commitment fee rate in effect on December 31, 2018. Debt of CIP is excluded from the above table as we are not obligated for these amounts. See Item 8, Financial Statements and Supplementary Data - Note 19 "Consolidation" for additional information

(2) Service contracts include contractual amounts that will be due to purchase goods and services to be used in our operations and may be canceled at earlier times than those indicated under certain conditions that may include termination fees.

Affiliate non-controlling interests that are redeemable have been excluded from the above table as there is significant uncertainty as to the timing and amount of any non-controlling interest purchase in the future. Accordingly, future payments to purchase non-controlling interests have been excluded from the above table, unless a put or call option has been exercised and a mandatory firm commitment exists for us to purchase such noncontrolling interests.

Impact of New Accounting Standards

For a discussion of accounting standards, see Note 2 to our consolidated financial statements.

Off-Balance Sheet Arrangements

We do not invest in any off-balance sheet vehicles that provide liquidity, capital resources, market or credit risk support nor do we engage in any leasing activities that expose us to any liability that is not reflected in our consolidated financial statements.

Critical Accounting Policies and Estimates

Our consolidated financial statements and the accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America, which requires the use of estimates. Actual results may vary from these estimates. Management believes the following critical accounting policies are important to understanding our results of operations and financial position.

Consolidation

The consolidated financial statements include the Company's accounts, including our subsidiaries and investment products that are consolidated. Voting interest entities ("VOEs") are consolidated when we have a controlling financial interest which is typically present when we own a majority of the voting interest in an entity or otherwise have the power to govern the financial and operating policies of the entity.

We evaluate any variable interest entities ("VIEs") in which we have a variable interest for consolidation. A VIE is an entity in which either (a) the equity investment at risk is not sufficient to permit the entity to finance its own activities without additional financial support or (b) where as a group, the holders of the equity investment at risk do not possess: (i) the power, through voting or similar rights, to direct the activities that most significantly impact the entity's economic performance, (ii) the obligation to absorb expected losses or the right to receive expected residual returns of the entity, or (iii) proportionate voting and economic interests and where substantially all of the entity's activities either involve, or are conducted on behalf of, an

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investor with disproportionately fewer voting rights. If an entity has any of these characteristics, it is considered a VIE and is required to be consolidated by its primary beneficiary. The primary beneficiary is the entity that has both the power to direct the activities that most significantly impact the VIE's economic performance and has the obligation to absorb losses of, or the right to receive benefits from, the VIE that could potentially be significant to the VIE.

Consolidated investment products include both VOEs, primarily consisting of open-end funds in which the Company holds a controlling financial interest, and VIEs, which primarily consist of CLOs of which the Company is considered the primary beneficiary. The consolidation and deconsolidation of these investment products have no impact on net income (loss) attributable to stockholders. The Company's risk with respect to these investment products is limited to its beneficial interests in these products. The Company has no right to the benefits from, and does not bear the risks associated with, these investment products beyond the Company's investments in, and fees generated from, these products.

Noncontrolling Interests

Noncontrolling interests include third party investor equity in consolidated investment products and minority interests held in an affiliate.

Noncontrolling interests - consolidated investment products

Represents third-party investor equity in in the Company's consolidated investment products and are classified as redeemable noncontrolling interests if investors in those products may request withdrawal at any time.

Noncontrolling interests - affiliate

Represents minority interests held in a consolidated affiliate. Minority interests held in an affiliate are subject to holder put rights and Company call rights at established multiples of earnings before interest, taxes, depreciation and amortization and, as such, are considered redeemable at other than fair value. They are exercisable at pre-established intervals (between four and seven years from their July 2018 issuance or upon certain conditions such as retirement). The put and call rights are not legally detachable or separately exercisable and are deemed to be embedded in the related noncontrolling interests. The Company, in purchasing affiliate equity, has the option to settle in cash or shares of common stock and is entitled to the cash flow associated with any purchased equity. In addition, under certain circumstances the Company may issue or sell equity interests of the affiliate to employees or partners of the affiliate. Affiliate minority interests are generally recorded at estimated redemption value within redeemable noncontrolling interests on the Company's condensed consolidated balance sheets, and changes in estimated redemption value of these interests are recorded in the Company's condensed consolidated statements of operations within noncontrolling interests.

Fair Value Measurements and Fair Value of Financial Instruments

The Financial Accounting Standards Board ("FASB") defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Accounting Standards Codification ("ASC") 820, Fair Value Measurements and Disclosures, establishes a framework for measuring fair value and a valuation hierarchy based upon the transparency of inputs used in the valuation of an asset or liability. Classification within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The valuation hierarchy contains three levels as follows:

Level 1 – Quoted prices for identical instruments in active markets. Level 1 assets and liabilities may include debt securities and equity securities that are traded in an active exchange market.

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 in which all significant inputs and significant value drivers are observable in active markets. Level 2 inputs may include observable market data such as closing market prices provided by independent pricing services after considering factors such as the yields or prices of comparable investments of comparable quality, coupon, maturity, call rights and other potential prepayments, terms and type, reported transactions, indications as to values from dealers and general market conditions. In addition, pricing services may determine the fair value of equity securities traded principally in foreign markets when it has been determined that there has been a significant trend in the U.S. equity markets or in index futures trading. Level 2 assets and liabilities may include debt and equity securities, purchased loans and over-the-counter derivative contracts whose fair value is determined using a pricing model without significant unobservable market data inputs.

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Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable in active exchange markets.

The following is a discussion of the valuation methodologies used for the Company's assets measured at fair value:

Sponsored funds represent investments in open-end, closed-end funds and ETFs for which we act as the investment manager. The fair value of open-end funds is determined based on their published net asset values and are categorized as Level 1. The fair value of closed-end funds and ETFs are determined based on the official closing price on the exchange on which they are traded and are categorized as Level 1.

Equity securities include securities traded on active markets and are valued at the official closing price (typically last sale or bid) on the exchange on which the securities are primarily traded and are categorized as Level 1.

Trading debt securities and Investments - available for sale represent investments in CLOs for which the Company provides investment management services. The investments in collateralized loan obligations are measured at fair value based on independent third party valuations and are categorized as Level 2 or Level 3. The independent third party valuations are based on discounted cash flow analyses and comparable trade data.

Nonqualified retirement plan assets represent mutual funds within a nonqualified retirement plan whose fair value is determined based on their published net asset value and are categorized as Level 1.

Investments of consolidated investment products represent the underlying debt and equity securities held in sponsored products which we consolidate. Equity securities are valued at the official closing price on the exchange on which the securities are traded and are categorized within Level 1. Level 2 investments include certain equity securities for which closing prices are not readily available or are deemed to not reflect readily available market prices and are valued using an independent pricing service, as well as most debt securities which are valued based on quotations received from independent pricing services or from dealers who make markets in such securities. Pricing services do not provide pricing for all securities, and therefore indicative bids from dealers are utilized, which are based on pricing models used by market makers in the security and are also included within Level 2. Level 3 investments include debt securities that are not widely traded, are illiquid and are priced by dealers based on pricing models used by market makers in the security. In certain instances, fair value has been determined utilizing discounted cash flow analyses or single broker non-binding quotes. Depending on the nature of the inputs, these assets are classified as Level 1, 2 or 3 within the fair value measurement hierarchy.

Notes payable of consolidated investment product represents notes issued by the CLO and are measured using the measurement alternative in ASU 2014-13. Accordingly, the fair value of CLO liabilities was measured as the fair value of CLO assets less the sum of (i) the fair value of the beneficial interests held by the Company and (ii) the carrying value of any beneficial interests that represent compensation for services.

Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities equal or approximate fair value based on the short-term nature of these instruments. Marketable securities are reflected in the consolidated financial statements at fair value based upon publicly quoted market prices.

Goodwill

As of December 31, 2018, the carrying value of goodwill was $290.4 million. Goodwill represents the excess of the purchase price of acquisitions over the fair value of identified net assets and liabilities acquired. We perform goodwill impairment tests annually, or more frequently should circumstances change, which could reduce the fair value below its carrying value. We have determined that we have only one reporting unit for purposes of assessing the carrying value of goodwill. Goodwill impairment testing is performed whenever events or changes in circumstances indicated that the carrying amount may not be recoverable. If we determine that the carrying value of the reporting unit is less than the fair value, the second step of the goodwill impairment test will be performed to measure the amount of impairment loss, if any. We completed our annual goodwill impairment assessment as of October 31, 2018, and no impairment was identified. For purposes of this assessment, we considered various qualitative factors, including but not limited to certain indicators of fair value (i.e., market capitalization and market multiples for asset management businesses), and we determined that it was more likely than not that the fair value of our reporting unit was greater than its carrying value. Only a significant decline in the fair value of our reporting unit would indicate that an impairment may exist.

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Indefinite-Lived Intangible Assets

As of December 31, 2018, the carrying value of indefinite-lived intangible assets was $43.5 million. Indefinite-lived intangible assets comprise trade names and acquired closed-end and ETF investment advisory contracts. We perform indefinite-lived intangible asset impairment tests annually, or more frequently, should circumstances change, which could reduce the fair value of indefinite-lived intangible assets below their carrying value. We completed our annual indefinite-lived intangible asset impairment assessment as of October 31, 2018, and no impairments were identified. For purposes of this assessment, we considered various qualitative factors for the investment advisory contracts related to the indefinite-lived intangible assets, including but not limited to (i) the growth in our assets under management, (ii) the positive operating margins and (iii) the positive cash flows generated, and we determined that it was more likely than not that the fair value of indefinite-lived intangible assets was greater than their carrying value. Only a significant decline in the fair value of our indefinite-lived intangible assets would indicate that an impairment may exist.

Definite-Lived Intangible Assets

As of December 31, 2018, the carrying value of definite-lived intangible assets was $295.3 million. Definite-lived intangible assets comprise acquired investment advisory contracts and trade names. We monitor the useful lives of definite-lived intangible assets and revise the useful lives, if necessary, based on the circumstances. Significant judgment is required in estimating the period that these assets will contribute to our cash flows and the pattern over which these assets will be consumed. A change in the remaining useful life of any of these assets could have a significant impact on our amortization expense. All amortization expense is calculated on a straight-line basis. For definite-lived intangible assets, impairment testing is performed whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If we determine the carrying value of the definite-lived intangible assets is less than the sum of the undiscounted cash flows expected to result from the asset, we will quantify the impairment using a discounted cash flow model.

Revenue Recognition

Our revenues are recognized when a performance obligation is satisfied, which occurs when control of the services is transferred to customers. Investment management fees, distribution and service fees and administration and shareholder service fees are generally calculated as a percentage of average net assets of the investment portfolios managed. The net asset values from which investment management, distribution and service and administration and shareholder service fees are calculated are variable in nature and subject to factors outside of our control such as deposits, withdrawals and market performance. Because of this, they are considered constrained until the end of the contractual measurement period (monthly or quarterly) which is when asset values are generally determinable.

Investment Management Fees

We provide investment management services pursuant to investment management agreements through our affiliated investment advisers (each an "Adviser"). Investment management services represent a series of distinct daily service periods which are performed over time. Fees earned on funds are based on each fund’s average daily or weekly net assets which are generally received and calculated on a monthly basis. We record management fees net of investment management fees paid to unaffiliated subadvisers, as we consider ourselves to be an agent of the fund as it relates to the day-to-day investment management services performed by unaffiliated subadvisers, with our performance obligation being to arrange for the provision of that service and not control the specified service before that service is performed. Amounts paid to unaffiliated subadvisers for the years ended December 31, 2018, 2017 and 2016 were $46.7 million, $46.7 million and $47.2 million, respectively.

Retail separate account fees are generally based on the end of the preceding or current quarter's asset values or on an average of month-end balances. Institutional account fees are generally based on an average of month-end balances or current quarter’s asset values. Fees for structured finance products, for which we act as the collateral manager, consist of senior, subordinated and, in certain instances, incentive management fees. Senior and subordinated management fees are calculated at a contractual fee rate applied against the end of the preceding quarter par value of the total collateral being managed with subordinated fees being recognized only after certain portfolio criteria are met. Incentive fees on certain of our CLOs are typically a percentage of the excess cash flows available to holders of the subordinated notes, above a threshold level internal rate of return.

We rely on data provided to us by service providers for the pricing of our assets under management. Our service providers have formal valuation policies and procedures over the valuation of investments. As of December 31, 2018, our total assets under management by fair value hierarchy level, as defined by ASC 820, Fair Value Measurements and Disclosures, were approximately 62.7% Level 1, 37.2% Level 2, and 0.1% Level 3.

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Distribution and Service Fees

Distribution and service fees are asset-based fees earned from open-end funds for distribution services. Depending on the fund type or share class, these fees primarily consist of an asset-based fee that is charged to the fund over a period of years to cover allowable sales and marketing expenses for the fund or front-end sales charges which are based on a percentage of the offering price. Asset-based distribution and service fees are primarily based on percentages of the average daily net assets value and are paid monthly pursuant to the terms of the respective distribution and service fee contracts.

Distribution and service fees represent two performance obligations comprised of distribution and related shareholder servicing activities. Distribution services are generally satisfied upon the sale of a fund share. Shareholder servicing activities are generally services satisfied over time.

We distribute our open-end funds through third-party financial intermediaries that comprise national and regional broker dealers. These third-party financial intermediaries provide distribution and shareholder service activities on our behalf. We pass related distribution and service fees to these third-party financial intermediaries for these services and consider ourselves the principal in these arrangements as we have control of the services prior to the services being transferred to the customer. These payments are classified within distribution and other asset-based expenses.

Administration & Shareholder Service Fees

We provide administrative fund services to our open-end funds and certain of our closed-end funds and shareholder services to our open-end funds. Administration and shareholder services are performed over time. We earn fees based on each fund’s average daily or weekly net assets which are calculated and paid monthly. Administrative fund services include: record keeping, preparing and filing documents required to comply with securities laws, legal administration and compliance services, customer service, supervision of the activities of the funds’ service providers, tax services and treasury services as well as providing office space, equipment and personnel that may be necessary for managing and administering the business affairs of the funds. Shareholder services include maintaining shareholder accounts, processing shareholder transactions, preparing filings and performing necessary reporting, among other things.

Other income and fees consist primarily of redemption income on the early redemption of certain share classes of mutual funds.

Accounting for Income Taxes

We account for income taxes in accordance with ASC 740, Income Taxes, which requires recognition of the amount of taxes payable or refundable for the current year, as well as deferred tax liabilities and assets for the future tax consequences of events that have been included in our financial statements or tax returns. Deferred tax liabilities and assets result from differences between the book value and tax basis of our assets, liabilities and carry-forwards, such as net operating losses or tax credits. We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. We record interest and penalties related to income taxes as a component of income tax expense.

Significant judgment is required in determining the provision for income taxes and, in particular, any valuation allowance that is recorded against our deferred tax assets. Our methodology for determining the realizability of deferred tax assets includes consideration of taxable income in prior carryback year(s) if carryback is permitted under the tax law, as well as consideration of the reversal of deferred tax liabilities that are in the same period and jurisdiction and are of the same character as the temporary differences that gave rise to the deferred tax assets. Our methodology also includes estimates of future taxable income from our operations, as well as the expiration dates and amounts of carryforwards related to net operating losses and capital losses. These estimates are projected through the life of the related deferred tax assets based on assumptions that we believe to be reasonable and consistent with demonstrated operating results. Changes in future operating results not currently forecasted may have a significant impact on the realization of deferred tax assets. Valuation allowances are provided when it is determined that it is more likely than not that the benefit of deferred tax assets will not be realized.

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Loss Contingencies

The likelihood that a loss contingency exists is evaluated using the criteria of ASC 450, Loss Contingencies, and an accrued liability is recorded if the likelihood of a loss is considered both probable and reasonably estimable at the date of the consolidated financial statements.

We believe that we have considered relevant circumstances that we may be currently subject to, and the consolidated financial statements accurately reflect our reasonable estimate of the results of our operations, financial condition and cash flows for the years presented.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.
Market Risk

Substantially all of our revenues are derived from investment management, distribution and service, and administration and shareholder servicing fees, which are based on the market value of assets under management. Accordingly, a decline in the market value of assets under management would cause our revenues and income to decline. In addition, a decline in the market value of assets under management could cause our clients to withdraw their investments in favor of other investments offering higher returns or lower risk, which would cause our revenues and income to decline.

We are also subject to market risk due to a decline in the market value of our investments, which consist of marketable securities and our net interests in consolidated investment products. The following table summarizes the impact of a 10% increase or decrease in the fair values of these financial instruments:

($ in thousands)	December 31, 2018 Fair Value	10% Change
Investment Securities - Available for Sale (a)	$2,023	$202
Investment Securities - Fair Value (b)	59,271	5,927
Our net interest in Consolidated Investment Products (c)	126,268	12,627
Total Investments subject to Market Risk	$187,562	$18,756

(a) Any unrealized gains or losses arising from changes in the fair value of available-for-sale investments are recognized in accumulated other comprehensive income, net of tax, until the investment is sold or otherwise disposed of or, if the investment is determined to be other-than-temporarily impaired, at which time the cumulative gain or loss previously reported in equity is included in income. The Company evaluates the carrying value of investments for impairment on a quarterly basis. In its impairment analysis, the Company takes into consideration numerous criteria, including the duration and extent of any decline in fair value and the intent and ability of the Company to hold the security for a period of time sufficient for a recovery in value. If the decline in value is determined to be other-than-temporary, the carrying value of the security is generally written down to fair value through the Consolidated Statement of Operations. If such a 10% increase or decrease in fair value were to occur, it would not result in an other-than-temporary impairment charge that would be material to the Company's pre-tax earnings.

(b) If such a 10% increase or decrease in fair values were to occur, the change of these investments would result in a corresponding increase or decrease in our pre-tax earnings.

(c) These represent the Company's direct investments in investment products that are consolidated. Upon consolidation, these direct investments are eliminated, and the assets and liabilities of consolidated investment products are consolidated in the Consolidated Balance Sheet, together with a non-controlling interest balance representing the portion of the consolidated investment products owned by third parties. If a 10% increase or decrease in the fair values of the Company's direct investments in consolidated investment products were to occur, it would result in a corresponding increase or decrease in the Company's pre-tax earnings.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. At December 31, 2018, we were exposed to interest rate risk as a result of approximately

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$152.4 million in investments we have in fixed and floating rate income products in which we have invested and which includes our net interests in consolidated investment products. We considered a hypothetical 100 basis point change in interest rates and determined that the fair value of our fixed income investments could change by an estimated $2.4 million.

At December 31, 2018, we had $340.6 million outstanding under our Credit Facility. The applicable margin on amounts outstanding under the Credit Agreement, commencing as of the Effective Date, is 2.50%, in the case of LIBOR-based loans, and 1.50% in the case of alternate base rate loans, in each case subject to a 25 basis point reduction based on the secured net leverage ratio (as defined in the Credit Agreement) of the Company as of the last day of the preceding fiscal quarter being not greater than 1.00 to 1.00, as reflected in certain financial reports required under the Credit Agreement. Given our borrowings are floating rate, we considered a hypothetical 100 basis point change in the base rate of our outstanding borrowings and determined that interest expense would change by an estimated $3.4 million, either an increase or decrease, depending on the direction of the change in the base rate.

At December 31, 2018, we had $1.6 billion outstanding of notes payable of our consolidated investment products. The notes bear interest at annual rates equal to the average LIBOR rate for interest periods of three months and six months plus, in each case, an applicable margin, that ranges from 1.00% to 8.75%.

Item 8. Financial Statements and Supplementary Data.

The audited Consolidated Financial Statements, including the Report of Independent Registered Public Accounting Firm and the required supplementary quarterly information, required by this item are presented under Item 15 beginning on page F-1.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this Annual Report on Form 10-K. Consistent with guidance issued by the Securities and Exchange Commission that an assessment of internal controls over financial reporting of a recently acquired business may be omitted from management's evaluation of disclosure controls and procedures, management is excluding an assessment of the internal controls of SGA, which was acquired by the Company on July 1, 2018, from its evaluation of the effectiveness of the Company's disclosure controls and procedures. SGA represented approximately 6.6% of the Company's consolidated total assets and 3.1% of the Company's consolidated total revenues as of and for the year ended December 31, 2018.

Based on their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level as of December 31, 2018, the end of the period covered by this Annual Report on Form 10-K.

Changes in Internal Controls over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f) under the Exchange Act) that occurred during the fourth quarter of fiscal 2018 that have materially affected, or are reasonably

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likely to materially affect, our internal control over financial reporting.
Management’s Report on Internal Control over Financial Reporting

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) or 15d-15(f) of the Exchange Act. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policy or procedures may deteriorate. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2018 based upon the Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Consistent with guidance issued by the Securities and Exchange Commission that an assessment of a recently acquired business may be omitted from management's report on internal control over financial reporting in the year of acquisition, management excluded an assessment of the effectiveness of the Company's internal control over financial reporting related to SGA as described above. SGA represented approximately 6.6% of the Company's consolidated total assets and 3.1% of the Company's consolidated total revenues as of and for the fiscal year ended December 31, 2018. Based on this evaluation, management, including our Chief Executive Officer and Chief Financial Officer, has concluded that our internal control over financial reporting was effective as of December 31, 2018.

The effectiveness of our internal control over financial reporting as of December 31, 2018 has been audited by Deloitte & Touche LLP, our independent registered public accounting firm, as stated in their report, which is included in Item 15 of this Annual Report on Form 10-K.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.
The information concerning the Company’s directors and nominees under the caption "Item 1—Election of Directors," information concerning the Audit Committee and the "audit committee financial expert" under the caption "Corporate Governance—Audit Committee," information concerning the Company’s executive officers under the caption "Executive Officers," and the information under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company’s Proxy Statement for the Company’s 2019 Annual Meeting of Shareholders, are incorporated herein by reference.
The Company has adopted a Code of Conduct that applies to the Company’s Chief Executive Officer, senior financial officers and all other Company employees, officers and Board members. The Code of Conduct is available in the Corporate Governance section of the Company’s Investor Relations website, http://ir.virtus.com, and is available in print to any person who requests it. Any substantive amendment to the Code of Conduct and any waiver in favor of a Board member or an executive officer may only be granted by the Board of Directors and will be publicly disclosed in the Corporate Governance section of the Company’s Investor Relations website, http://ir.virtus.com.
The information concerning procedures by which shareholders may recommend director nominees set forth under the caption "Corporate Governance—Governance Committee—Director Nomination Process" in the Company’s Proxy Statement for the Company’s 2019 Annual Meeting of Shareholders is incorporated herein by reference.

Item 11. Executive Compensation.

The information relating to executive compensation and the Company’s policies and practices as they relate to the Company’s risk management is set forth under the captions "Executive Compensation," "Director Compensation," "Corporate Governance—Compensation Committee—Risks Related to Compensation Policies and Practices" and "Corporate Governance—Compensation Committee—Compensation Committee Interlocks and Insider Participation" in the Company’s Proxy Statement for the Company’s 2019 Annual Meeting of Shareholders and is incorporated herein by reference. The information

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included under the caption "Executive Compensation—Report of the Compensation Committee" in the Company's Proxy Statement for the Company's 2019 Annual Meeting of Shareholders is incorporated herein by reference but shall be deemed "furnished" (and not "filed") with this report.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information set forth under the caption "Security Ownership by Certain Beneficial Owners and Management" in the Company's Proxy Statement for the Company's 2019 Annual Meeting of Shareholders is incorporated herein by reference.

The following table sets forth information as of December 31, 2018 with respect to compensation plans under which shares of our common stock may be issued:

EQUITY COMPENSATION PLAN INFORMATION

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights (1)	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders (2)	628,989	$ 12.86	297,407
Equity compensation plans not approved by security holders	—	—	—
Total	628,989	$ 12.86	297,407

(1) The weighted-average exercise price set forth in this column is calculated excluding outstanding restricted stock unit awards ("RSUs") since recipients of such awards are not required to pay an exercise price to receive the shares subject to these awards.

(2) Represents 76,751 shares of common stock issuable upon the exercise of stock options and 552,238 shares of our common stock issuable upon the vesting of RSUs outstanding under the Company's Omnibus Incentive and Equity Plan (the "Omnibus Plan"). Of the 2,400,000 maximum number of shares of our common stock authorized for issuance under the Omnibus Plan, 100,841 shares of common stock have been issued on a cumulative basis in the form of direct grants to directors.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information set forth under the captions "Corporate Governance—Transactions with Related Persons" and "Corporate Governance—Director Independence" in the Company's Proxy Statement for the Company's 2019 Annual

Meeting of Shareholders is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services.

The information regarding auditors fees and services and the Company’s pre-approval policies and procedures for audit and non-audit services to be provided by the Company’s independent registered public accounting firm set forth under the caption "Item 2—Ratification of the Appointment of the Independent Registered Public Accounting Firm" in the Company’s Proxy Statement for the 2019 Annual Meeting of Shareholders is incorporated herein by reference.

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PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a)(1) Financial Statements: The following Report of Independent Registered Public Accounting Firm and Consolidated Financial Statements of Virtus are included in this Annual Report:

(a)(2) Financial Statement Schedules:

All financial statement schedules have been omitted because the required information is either presented in the consolidated financial statements or the notes thereto or is not applicable or required.

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(a)(3) Exhibits:

The following exhibits are filed herewith or incorporated herein by reference:

Exhibit Number	Exhibit Description
(2)	Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession
*2.1	Separation Agreement, Plan of Reorganization and Distribution by and between The Phoenix Companies, Inc. and the Registrant, dated as of December 18, 2008 (incorporated by reference to Exhibit 2.1 of the Registrant's Amendment No. 4 to Form 10, filed December 19, 2008).
*2.2	Agreement and Plan of Merger dated as of December 16, 2016 among the Registrant, 100 Pearl Street 2, LLC, Lightyear Fund III, AIV-2, L.P., and RidgeWorth Holdings LLC (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K, filed December 22, 2016).
2.3	Securities Purchase Agreement among the Registrant, Sustainable Growth Advisers, LP ("SGA"), SGIA, LLC, Estancia Capital Partners, L.P. and each of the management partners of SGA named therein, dated as of February 1, 2018 (incorporated by reference to Exhibit 2.3 of the Registrant's Annual Report on Form 10-K, filed February 27, 2018).
(3)	Articles of Incorporation and Bylaws
3.1	Amended and Restated Certificate of Incorporation of the Registrant, dated December 18, 2008 (incorporated by reference to Exhibit 3.1 of the Registrant's Amendment No. 4 to Form 10, filed December 19, 2008).
3.2	Amended and Restated Bylaws of the Registrant, as amended on February 14, 2018 (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K, filed February 16, 2018).
3.3	Certificate of Designations of Series A Non-Voting Convertible Preferred Stock and Series B Voting Convertible Preferred Stock of the Registrant, dated October 31, 2008 (incorporated by reference to Exhibit 4.2 of the Registrant's Amendment No. 2 to Form 10, filed November 14, 2008).
3.4	Certificate of Amendment of the Certificate of Designations of Series A Non-Voting Convertible Preferred Stock and Series B Voting Convertible Preferred Stock of the Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Quarterly Report on Form 10-Q, filed August 13, 2009).
3.5	Certificate of Designations of Series C Junior Participating Preferred Stock of the Registrant, dated December 29, 2008 (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K, filed January 2, 2009).
3.6	Certificate of Designations of 7.25% Series D Mandatory Convertible Preferred Stock of the Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K, filed February 1, 2017).
(4)	Instruments Defining the Rights of Security Holders including Indentures
4.1	Specimen 7.25% Series D Mandatory Convertible Preferred Stock Share Certificate (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K, filed on February 1, 2017)
(10)	Material Contracts
10.1	Transition Services Agreement by and between The Phoenix Companies, Inc. and the Registrant, dated as of December 18, 2008 (incorporated by reference to Exhibit 10.1 of the Registrant's Amendment No. 4 to Form 10, filed December 19, 2008).
10.2	Tax Separation Agreement by and between The Phoenix Companies, Inc. and the Registrant, dated December 18, 2008 (incorporated by reference to Exhibit 10.2 of the Registrant's Amendment No. 4 to Form 10, filed December 19, 2008).
10.3	Amendment to Tax Separation Agreement, dated April 8, 2009, by and between The Phoenix Companies, Inc. and the Registrant, dated as of December 18, 2008 (incorporated by reference to Exhibit 10.15 of the Registrant's Annual Report on Form 10-K, filed April 10, 2009).

10.4	Employee Matters Agreement by and between The Phoenix Companies, Inc. and the Registrant, dated December 18, 2008 (incorporated by reference to Exhibit 10.3 of the Registrant's Amendment No. 4 to Form 10, filed December 19, 2008).

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**10.5	Change in Control Agreement between George R. Aylward and the Registrant, effective as of December 31, 2008 (incorporated by reference to Exhibit 10.4 of the Registrant's Amendment No. 4 to Form 10, filed December 19, 2008).
**10.6	Amended and Restated Virtus Investment Partners, Inc. Omnibus Incentive and Equity Plan, effective as of January 1, 2014 (incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K, filed May 26, 2016).
**10.7	Virtus Investment Partners, Inc. Non-Qualified Excess Investment Plan, effective as of November 1, 2008 (incorporated by reference to Exhibit 10.6 of the Registrant's Amendment No. 2 to Form 10, filed November 14, 2008).
**10.8	First Amendment to the Virtus Investment Partners, Inc. Non-Qualified Excess Investment Plan, effective as of February 1, 2010 (incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q, filed May 4, 2010).
**10.9	Virtus Investment Partners, Inc. Amended and Restated Executive Severance Allowance Plan, effective as of February 2, 2009 (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, filed February 4, 2009).
**10.10	Form of Non-Qualified Stock Option Agreement under the Virtus Investment Partners, Inc. Omnibus Incentive and Equity Plan (incorporated by reference to Exhibit 10.4 of the Registrant's Quarterly Report on Form 10-Q, filed May 13, 2009).
**10.11	Form of Restricted Stock Units Agreement under the Virtus Investment Partners, Inc. Omnibus Incentive and Equity Plan (incorporated by reference to Exhibit 10.5 of the Registrant's Quarterly Report on Form 10-Q, filed May 13, 2009).
**10.12	Form of Performance Share Units Agreement under the Virtus Investment Partners, Inc. Omnibus Incentive and Equity Plan (incorporated by reference to Exhibit 10.30 of the Registrant's Quarterly Report on Form 10-Q, filed August 5, 2011).
**10.13	Form of Indemnity Agreement (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q, filed November 4, 2009).
**10.14	Offer Letter from the Registrant to Mark S. Flynn dated December 9, 2010 (incorporated by reference to Exhibit 10.31 of the Registrant's Annual Report on Form 10-K, filed March 1, 2012).
**10.15	Offer Letter from the Registrant to Barry M. Mandinach dated April 4, 2014 (incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q, filed May 7, 2014).
10.16	Stock Purchase Agreement, dated October 27, 2016, between Bank of Montreal Holding Inc. and Virtus Investment Partners, Inc. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed October 27, 2016).
10.17	Commitment Letter, dated as of December 16, 2016, among Barclays Bank PLC, Morgan Stanley Senior Funding, Inc. and Virtus Investment Partners, Inc. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed December 22, 2016).
10.18	Credit Agreement, dated as of June 1, 2017, by and among the Registrant, 100 Pearl Street 2, LLC, Lightyear Fund III AIV-2, L.P. and RidgeWorth Holdings LLC (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, filed June 1, 2017).
10.19	Amendment No. 1 to Credit Agreement with the Registrant, Morgan Stanley Senior Funding, Inc. as administrative agent, and the lenders party thereto (including, without limitation, the Amendment No. 1 Additional Term Lenders (as defined in the Amendment) to the Credit Agreement dated as of June 1, 2017 (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, filed February 22, 2018).
**10.20	Form of Virtus Investment Partners, Inc. Performance Share Units Agreement (Special Integration Award) under the Virtus Investment Partners, Inc. Omnibus Incentive and Equity Plan (incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q, filed May 8, 2017).

(21) Subsidiaries of the Registrant

21.1 Virtus Investment Partners, Inc., Subsidiaries List.

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(23)	Consents of Experts and Counsel
23.1	Consent of Independent Registered Public Accounting Firm.
23.2	Consent of Independent Registered Public Accounting Firm.
31.1	Certifications of Registrant's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certifications of Registrant's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications of Registrant's Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following information formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2018 and December 31, 2017, (ii) Consolidated Statements of Operations for the years ended December 31, 2018, 2017 and 2016, (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016, (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016, (v) Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2018, 2017 and 2016 and (iv) Notes to Consolidated Financial Statements.

* Certain schedules and exhibits to this agreement have been omitted in accordance with Item 601(b)(2) of Regulation S-K. The descriptions of the omitted schedules and exhibits are contained within the relevant agreement. A copy of any omitted schedule and/or exhibit will be furnished supplementally to the SEC upon request.

** Management contract, compensatory plan or arrangement.

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by the Company in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs at the date they were made or at any other time.

Item 16. Form 10-K Summary.

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Dated: February 27, 2019

Virtus Investment Partners, Inc.

By: /S/ MICHAEL A. ANGERTHAL
Michael A. Angerthal
Executive Vice President
Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of February 27, 2019.

/S/ MARK C. TREANOR
Mark C. Treanor
Director and Non-Executive Chairman

/S/ GEORGE R. AYLWARD
George R. Aylward
President, Chief Executive Officer and Director
(Principal Executive Officer)

/S/ JAMES R. BAIO
James R. Baio
Director

/S/ SUSAN S. FLEMING
Susan S. Fleming
Director

/S/ TIMOTHY A. HOLT
Timothy A. Holt
Director

/S/ SHEILA HOODA
Sheila Hooda
Director

/S/ MELODY L. JONES
Melody L. Jones
Director

/S/ STEPHEN T. ZARRILLI
Stephen T. Zarrilli
Director

/S/ MICHAEL A. ANGERTHAL
Michael A. Angerthal
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Virtus Investment Partners, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheet of Virtus Investment Partners, Inc. and subsidiaries (the "Company") as of December 31, 2018, the related consolidated statements of operations, comprehensive income, changes in stockholders' equity and cash flows, for the year ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018, and the results of its operations and its cash flows for the year ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

As described in Management’s Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Sustainable Growth Advisers, LP, which was acquired on July 1, 2018. Sustainable Growth Advisers, LP represented approximately 6.6% of the Company's consolidated total assets and 3.1% of the Company's consolidated total revenues as of and for the fiscal year ended December 31, 2018. Accordingly, our audit did not include the internal control over financial reporting at Sustainable Growth Advisers, LP.

Basis for Opinions

The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s

Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express an opinion on these financial statements and an opinion on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and

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dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP
Hartford, Connecticut
February 27, 2019

We have served as the Company's auditor since 2018.

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Report of Independent Registered Public Accounting Firm
To the Board of Directors and Stockholders of Virtus Investment Partners, Inc.

Opinion on the Financial Statements

We have audited the consolidated balance sheet of Virtus Investment Partners, Inc. and its subsidiaries (the “Company”) as of December 31, 2017, and the related consolidated statements of operations, of comprehensive income, of changes in stockholders’ equity and of cash flows for each of the two years in the period ended December 31, 2017, including the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

Hartford, Connecticut
February 26, 2018, except for the change in the manner in which the Company accounts for restricted cash in the statement of cash flows discussed in Note 2 to the consolidated financial statements, as to which the date is February 27, 2019

We served as the Company's auditor from at least 1995 to 2018. We have not been able to determine the specific year we began serving as auditor of the Company.

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Virtus Investment Partners, Inc.
Consolidated Balance Sheets

($ in thousands, except per share data)	December 31, 2018	December 31, 2017
Assets:		
Cash and cash equivalents	$ 201,705	$ 132,150
Investments	79,558	108,492
Accounts receivable, net	70,047	65,648
Assets of consolidated investment products ("CIP")		
Cash and cash equivalents of CIP	52,015	101,315
Cash pledged or on deposit of CIP	936	817
Investments of CIP	1,749,568	1,597,752
Other assets of CIP	31,057	33,486
Furniture, equipment, and leasehold improvements, net	20,154	10,833
Intangible assets, net	338,812	301,954
Goodwill	290,366	170,153
Deferred taxes, net	22,116	32,428
Other assets	14,201	35,771
Total assets	$ 2,870,535	$ 2,590,799
Liabilities and Equity		
Liabilities:		
Accrued compensation and benefits	$ 93,339	$ 86,658
Accounts payable and accrued liabilities	27,926	29,607
Dividends payable	7,762	6,528
Debt	329,184	248,320
Other liabilities	20,010	39,895
Liabilities of CIP		
Notes payable of CIP	1,620,260	1,457,435
Securities purchased payable and other liabilities of CIP	70,706	112,954
Total liabilities	2,169,187	1,981,397
Commitments and Contingencies (Note 11)		
Redeemable noncontrolling interests	57,481	4,178
Equity:		
Equity attributable to stockholders:		
Series D mandatory convertible preferred stock, $0.01 par value, 1,150,000 shares authorized, issued and outstanding at December 31, 2018 and December 31, 2017	110,843	110,843
Common stock, $0.01 par value, 1,000,000,000 shares authorized; 10,552,624 shares issued and 6,997,382 shares outstanding at December 31, 2018 and 10,455,934 shares issued and 7,159,645 shares outstanding at December 31, 2017	106	105
Additional paid-in capital	1,209,805	1,216,173
Retained earnings (accumulated deficit)	(310,865)	(386,216)
Accumulated other comprehensive income (loss)	(731)	(600)
Treasury stock, at cost, 3,555,242 and 3,296,289 shares at December 31, 2018 and December 31, 2017, respectively	(379,249)	(351,748)
Total equity attributable to stockholders	629,909	588,557
Noncontrolling interests	13,958	16,667
Total equity	643,867	605,224
Total liabilities and equity	$ 2,870,535	$ 2,590,799

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

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Virtus Investment Partners, Inc.
Consolidated Statements of Operations

	Years Ended December 31,		
($ in thousands, except per share data)	2018	2017	2016
Revenues			
Investment management fees	$437,021	$331,075	$235,230
Distribution and service fees	50,715	44,322	48,250
Administration and shareholder service fees	63,614	48,996	38,261
Other income and fees	885	1,214	813
Total revenues	552,235	425,607	322,554
Operating Expenses			
Employment expenses	238,501	191,394	135,641
Distribution and other asset-based expenses	92,441	71,987	69,049
Other operating expenses	74,853	69,410	50,274
Other operating expenses of consolidated investment products	3,515	8,531	6,953
Restructuring and severance	87	10,580	4,270
Depreciation and other amortization	4,597	3,497	3,092
Amortization expense	25,142	12,173	2,461
Total operating expenses	439,136	367,572	271,740
Operating Income (Loss)	113,099	58,035	50,814
Other Income (Expense)			
Realized and unrealized gain (loss) on investments, net	(5,217)	2,973	4,982
Realized and unrealized gain (loss) of consolidated investment products, net	(21,252)	13,553	2,748
Other income (expense), net	3,289	1,635	1,089
Total other income (expense), net	(23,180)	18,161	8,819
Interest Income (Expense)			
Interest expense	(19,445)	(12,007)	(679)
Interest and dividend income	4,999	2,160	1,743
Interest and dividend income of investments of consolidated investment products	98,356	49,323	20,402
Interest expense of consolidated investment products	(64,788)	(35,243)	(11,292)
Total interest income (expense), net	19,122	4,233	10,174
Income (Loss) Before Income Taxes	109,041	80,429	69,807
Income tax expense (benefit)	32,961	40,490	21,044
Net Income (Loss)	76,080	39,939	48,763
Noncontrolling interests	(551)	(2,927)	(261)
Net Income (Loss) Attributable to Stockholders	$75,529	$37,012	$48,502
Preferred stockholder dividends	(8,337)	$(8,336)	$—
Net Income (Loss) Attributable to Common Stockholders	$67,192	$28,676	$48,502
Earnings (Loss) per Share-Basic	$9.37	$4.09	$6.34
Earnings (Loss) per Share-Diluted	$8.86	$3.96	$6.20
Cash Dividends Declared per Preferred Share	$7.25	$7.25	$—
Cash Dividends Declared per Common Share	$2.00	$1.80	$1.80
Weighted Average Shares Outstanding-Basic (in thousands)	7,174	7,013	7,648
Weighted Average Shares Outstanding-Diluted (in thousands)	8,527	7,247	7,822

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

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Virtus Investment Partners, Inc.
Consolidated Statements of Comprehensive Income

	Years Ended December 31,		
($ in thousands)	2018	2017	2016
Net Income (Loss)	$76,080	$39,939	$48,763
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment, net of tax of $6, ($4) and ($348) for the years ended December 31, 2018, 2017 and 2016	(17)	12	569
Unrealized gain (loss) on available-for-sale securities, net of tax of $111, $100, and ($32) for the years ended December 31, 2018, 2017 and 2016, respectively	(292)	(388)	241
Other comprehensive income (loss)	(309)	(376)	810
Comprehensive income (loss)	75,771	39,563	49,573
Comprehensive (income) loss attributable to noncontrolling interests	(551)	(2,927)	(261)
Comprehensive income (loss) attributable to stockholders	$75,220	$36,636	$49,312

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

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Virtus Investment Partners, Inc.
Consolidated Statements of Changes in Stockholders’ Equity

	Permanent Equity								
	Common Stock		Preferred Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	
($ in thousands)	Shares	Par Value	Shares	Amount				Shares	Amou
Balances at December 31, 2015	8,398,944	$96	—	$—	$1,140,875	$(472,614)	$(1,034)	1,214,144	$(157
Net income (loss)	—	—	—	—	—	48,502	—	—	—
Net unrealized gain (loss) on securities available-for-sale	—	—	—	—	—	—	241	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	569	—	—
Net subscriptions (redemptions) and other	—	—	—	—	—	(167)	—	—	—
Cash dividends declared ($1.80 per common share)	—	—	—	—	(13,015)	—	—	—	—
Repurchase of common shares	(2,572,417)	(6)	—	—	(47,204)	—	—	2,015,901	(186,5
Issuance of common shares related to employee stock transactions	62,486	1	—	—	1,054	—	—	—	—
Taxes paid on stock-based compensation	—	—	—	—	(1,530)	—	—	—	—
Stock-based compensation	—	—	—	—	11,449	—	—	—	—
Tax deficiencies from stock-based compensation	—	—	—	—	(1,298)	—	—	—	—
Balances at December 31, 2016	5,889,013	91	—	—	1,090,331	(424,279)	(224)	3,230,045	(344,2
Cumulative effect adjustment for adoption of ASU 2016-09	—	—	—	—	—	1,051	—	—	—
Net income (loss)	—	—	—	—	—	37,012	—	—	—
Net unrealized gain (loss) on securities available-for-sale	—	—	—	—	—	—	(388)	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	12	—	—
Net subscriptions (redemptions) and other	—	—	—	—	—	—	—	—	—
Issuance of mandatory convertible preferred stock, net of offering costs	—	—	1,150,000	110,843	—	—	—	—	—
Cash dividends declared ($7.25 per preferred share)	—	—	—	—	(8,337)	—	—	—	—
Issuance of common stock for acquisition of business	213,669	2	—	—	21,738	—	—	—	—
Issuance of common stock, net of offering costs	1,046,500	11	—	—	109,316	—	—	—	—
Cash dividends declared ($1.80 per common share)	—	—	—	—	(13,545)	—	—	—	—
Repurchase of common shares	(66,244)	—	—	—	—	—	—	66,244	(7,502
Issuance of common shares related to employee stock transactions	76,707	1	—	—	840	—	—	—	—
Taxes paid on stock-based compensation	—	—	—	—	(3,499)	—	—	—	—
Stock-based compensation	—	—	—	—	19,329	—	—	—	—

Balances at December 31, 2017	7,159,645	105	1,150,000	110,846	1,24[illegible],173	(386,216)	(600)	3,296,289	(351,7

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	Permanent Equity								
	Common Stock		Preferred Stock					Treasury St	
($ in thousands)	Shares	Par Value	Shares	Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Shares	
Adjustment for adoption of ASU 2016-01	—	—	—	—	—	(178)	178	—	
Acquisition of business	—	—	—	—	—	—	—	—	
Net income (loss)	—	—	—	—	—	75,529	—	—	
Net unrealized gain (loss) on securities available-for-sale	—	—	—	—	—	—	(292)	—	
Foreign currency translation adjustment	—	—	—	—	—	—	(17)	—	
Net subscriptions (redemptions) (distributions) and other	—	—	—	—	—	—	—	—	
Cash dividends declared ($7.25 per preferred share)	—	—	—	—	(8,337)	—	—	—	
Cash dividends declared ($2.00 per common share)	—	—	—	—	(15,267)	—	—	—	
Repurchase of common shares	(258,953)	—	—	—	—	—	—	258,953	
Issuance of common shares related to employee stock transactions	96,690	1	—	—	1,543	—	—	—	
Taxes paid on stock-based compensation	—	—	—	—	(6,591)	—	—	—	
Stock-based compensation	—	—	—	—	22,284	—	—	—	
Balances at December 31, 2018	6,997,382	$106	1,150,000	$110,843	$1,209,805	$(310,865)	$(731)	3,555,242	

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

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Virtus Investment Partners, Inc.
Consolidated Statements of Cash Flow

	Years Ended December 31,		
$ in thousands)	2018	2017	2016
Cash Flows from Operating Activities:			
Net income (loss)	$76,080	$39,939	$48,763
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense, intangible asset and other amortization	33,426	18,329	5,796
Stock-based compensation	23,100	20,327	11,948
Amortization of deferred commissions	3,847	2,308	2,413
Payments of deferred commissions	(4,218)	(2,871)	(1,887)
Equity in earnings of equity method investments	(3,703)	(1,678)	(1,075)
Realized and unrealized (gains) losses on investments, net	5,736	(3,237)	(2,099)
Distributions from equity method investments	4,178	911	—
Sales (purchases) of investments, net	4,995	20,444	16,828
Other non-cash items, net	39	345	(3,099)
Deferred taxes, net	10,429	22,835	6,399
Changes in operating assets and liabilities:			
Accounts receivable, net and other assets	24,794	(961)	(1,695)
Accrued compensation and benefits, accounts payable, accrued liabilities and other liabilities	(24,714)	11,468	50
Operating activities of consolidated investment products ("CIP"):			
Realized and unrealized (gains) losses on investments of CIP, net	18,706	(14,051)	(3,648)
Purchases of investments by CIP	(1,106,991)	(923,519)	(464,216)
Sales of investments by CIP	874,279	615,565	400,493
Net proceeds (purchases) of short term investments by CIP	(552)	595	6,139
(Purchases) sales of securities sold short by CIP, net	209	256	(4,520)
Change in other assets of CIP	(628)	(255)	(1,491)
Change in liabilities of CIP	(1,567)	5,284	2,100
Amortization of discount on notes payable of CIP	—	5,107	3,719
Net cash provided by (used in) operating activities	(62,555)	(182,859)	20,918
Cash Flows from Investing Activities:			
Capital expenditures	(11,717)	(1,511)	(2,023)
Proceeds from sale of equity method investment	—	—	8,621
Change in cash and cash equivalents of CIP due to deconsolidation, net	(113)	(604)	(903)
Equity method investment contributions	—	—	(2,471)
Acquisition of business, net of cash acquired	(126,995)	(393,446)	—
Sale of available-for-sale securities	37,785	—	—
Purchases of available-for-sale securities	(20,188)	(21,433)	(145)
Net cash provided by (used in) investing activities	(121,228)	(416,994)	3,079
Cash Flows from Financing Activities:			
Issuance of debt	105,000	260,000	—
Payment of long term debt	(23,776)	(650)	—
Payment of contingent consideration	—	(51,690)	—
Payment of deferred financing costs	(3,810)	(15,549)	(1,159)
Borrowings (Repayments) on credit facility and other debt	—	(30,970)	30,000
Repurchase of common shares	(27,501)	(7,502)	(233,757)
Preferred stock dividends paid	(8,338)	(6,253)	—

Common stock dividends paid	(14,038)	(12,581)	(13,774)
Proceeds from exercise of stock options	819	111	491
Taxes paid related to net share settlement of restricted stock units	(6,591)	(3,499)	(1,530)
Proceeds from issuance of mandatory convertible preferred stock, net of issuance costs	—	111,004	—
Proceeds from issuance of common stock, net of issuance costs	—	109,487	—

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Excess tax benefits from stock-based compensation	—	—	401
Net subscriptions received from (redemptions/distributions paid to) noncontrolling interests	(5,512)	30,047	10,904
Financing activities of CIP			
Borrowings of debt of CIP	857,404	—	—
(Repayment) on borrowings by CIP	(669,500)	(105,000)	(155,919)
Proceeds from issuance of notes payable by CIP	—	474,009	316,280
Repayment of notes payable by CIP	—	(500)	—
Net cash provided by (used in) financing activities	204,157	750,464	(48,063)
Net increase (decrease) in cash and cash equivalents	20,374	150,611	(24,066)
Cash, cash equivalents and restricted cash, beginning of year	234,282	83,671	107,737
Cash, cash equivalents and restricted cash, end of year	$254,656	$234,282	$83,671
Supplemental Disclosure of Cash Flow Information			
Interest paid	$11,846	$8,147	$420
Income taxes paid, net	23,800	12,149	16,715
Supplemental Disclosure of Non-Cash Investing and Financing Activities			
Capital expenditures	$2,165	$70	$134
Preferred stock dividends payable	2,084	2,084	—
Common stock dividends payable	3,849	965	2,650
Increase (Decrease) to noncontrolling interest due to consolidation (deconsolidation) of CIP, net	56	(65,576)	(47,763)
Stock issued for acquisition of business	—	21,738	—
Accrued stock issuance costs	—	332	—

	December 31,	
($ in thousands)	2018	2017
Reconciliation of cash, cash equivalents and restricted cash		
Cash and cash equivalents	$201,705	$132,150
Cash of consolidated investment products	52,015	101,315
Cash pledged or on deposit of consolidated investment products	936	817
Cash, cash equivalents and restricted cash at end of period	$254,656	$234,282

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

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Virtus Investment Partners, Inc.
Notes to Consolidated Financial Statements

1. Organization and Business

Virtus Investment Partners, Inc. ("the Company," "we," "us," "our" or "Virtus"), a Delaware corporation, operates in the investment management industry through its subsidiaries.

The Company provides investment management and related services to individuals and institutions. The Company’s retail investment management services are provided to individuals through products consisting of U.S. 1940 Act mutual funds and Undertaking for Collective Investment in Transferable Securities ("UCITS") (collectively, "open-end funds"), closed-end funds, exchange traded funds ("ETFs") and retail separate accounts. Institutional investment management services are provided to corporations, multi-employer retirement funds, employee retirement systems, foundations, endowments and structured products.

2. Summary of Significant Accounting Policies

The Company’s significant accounting policies, which have been consistently applied, are as follows:

Principles of Consolidation and Basis of Presentation

The Company’s consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The consolidated financial statements include the accounts of the Company, its subsidiaries and investment products that are consolidated. Voting interest entities ("VOEs") are consolidated when the Company is considered to have a controlling financial interest, which is typically present when the Company owns a majority of the voting interest in an entity or otherwise has the power to govern the financial and operating policies of the entity. See Note 19 for additional information related to the consolidation of investment products. Intercompany accounts and transactions have been eliminated.

The Company evaluates the appropriateness of consolidation of any variable interest entity ("VIEs") in which the Company has a variable interest. A VIE is an entity in which either (a) the equity investment at risk is not sufficient to permit the entity to finance its own activities without additional financial support or (b) where as a group, the holders of the equity investment at risk do not possess: (i) the power through voting or similar rights to direct the activities that most significantly impact the entity’s economic performance; (ii) the obligation to absorb expected losses or the right to receive expected residual returns of the entity; or (iii) proportionate voting and economic interests and where substantially all of the entity’s activities either involve or are conducted on behalf of an investor with disproportionately fewer voting rights. If an entity has any of these characteristics, it is considered a VIE and is required to be consolidated by its primary beneficiary. The primary beneficiary is the entity that has both the power to direct the activities that most significantly impact the VIE’s economic performance and has the obligation to absorb losses of, or the right to receive benefits from, the VIE that could potentially be significant to the VIE.

The Company has reclassified certain amounts in prior-period financial statements to conform to the current period's presentation. The reclassifications were not material to the Consolidated Financial Statements.

Noncontrolling Interests

Noncontrolling interests include third party investor equity in consolidated investment products and minority interests held in an affiliate.

Noncontrolling interests - consolidated investment products

Represents third-party investor equity in in the Company's consolidated investment products and are classified as redeemable noncontrolling interests if investors in those products may request withdrawal at any time.

Noncontrolling interests - affiliate

Represents minority interests held in a consolidated affiliate. Minority interests held in an affiliate are subject to holder put rights and Company call rights at established multiples of earnings before interest, taxes, depreciation and amortization and,

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as such, are considered redeemable at other than fair value. They are exercisable at pre-established intervals (between four and seven years from their July 2018 issuance or upon certain conditions such as retirement). The put and call rights are not legally detachable or separately exercisable and are deemed to be embedded in the related noncontrolling interests. The Company, in purchasing affiliate equity, has the option to settle in cash or shares of common stock and is entitled to the cash flow associated with any purchased equity. In addition, under certain circumstances the Company may issue or sell equity interests of the affiliate to employees or partners of the affiliate. Affiliate minority interests are generally recorded at estimated redemption value within redeemable noncontrolling interests on the Company's consolidated balance sheets, and changes in estimated redemption value of these interests are recorded in the Company’s consolidated statements of operations within noncontrolling interests.

Use of Estimates

The preparation of the consolidated financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Management believes the estimates used in preparing the consolidated financial statements are reasonable and prudent. Actual results could differ from those estimates.

Segment Information

Accounting Standards Codification ("ASC") 280, Segment Reporting, establishes disclosure requirements relating to operating segments in annual and interim financial statements. Business or operating segments are defined as components of an enterprise about which separate financial information is available that is regularly evaluated by the chief operating decision maker in deciding how to allocate resources and assess performance. The Company operates in one business segment, namely as an asset manager providing investment management and related services for individual and institutional clients. The Company’s Chief Executive Officer is the Company’s chief operating decision maker. Although the Company provides disclosures regarding assets under management and other asset flows by product, the Company’s determination that it operates in one business segment is based on the fact that the same investment professionals manage both retail and institutional products, operational resources support multiple products, such products have the same or similar regulatory framework and the Company’s chief operating decision maker reviews the Company’s financial performance on a consolidated level. Investment managers within the Company are generally not aligned with specific product lines.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in banks and money market fund investments.

Investments

Investment securities - fair value

Investment securities - fair value consist primarily of investments in the Company's sponsored funds, equity securities and trading debt securities and are carried at fair value in accordance with ASC 320, Investments-Debt and Equity Securities ("ASC 320") and Topic 321, Investments-Equity Securities ("ASC 321"). These securities are marked to market based on the respective publicly quoted net asset values of the funds or market prices of the equity securities or bonds. These securities transactions are recorded on a trade date basis. Any unrealized appreciation or depreciation on investment securities is reported as realized and unrealized gain (loss) on investments in the Consolidated Statement of Operations.

Investment securities - available for sale

Investment securities - available for sale consists of investments in collateralized loan obligations ("CLOs") for which the Company provides investment management services and does not consolidate. These investments are carried at fair value in accordance with ASC 320. Any unrealized appreciation or depreciation on available-for-sale securities, net of income taxes, is reported as a component of accumulated other comprehensive income in equity attributable to stockholders in the Consolidated Statement of Comprehensive Income.

On a quarterly basis, the Company conducts a review to assess whether other-than-temporary impairments exist on its available-for-sale investment securities. Other-than-temporary declines in value may exist if the fair value of an investment security has been below the carrying value for an extended period of time. If an other-than-temporary decline in value is determined to exist, the unrealized investment loss, net of tax, is recognized in the Consolidated Statements of Operations in the period in which the other-than-temporary decline in value occurs, as well as an accompanying permanent adjustment to accumulated other comprehensive income.

Equity Method Investments

The Company's investment in noncontrolled entities, where the Company does not hold a controlling financial interest but has the ability to significantly influence operating and financial matters, is accounted for under the equity method of accounting in accordance with ASC 323, Investments-Equity Method and Joint Ventures. Under the equity method of accounting, the Company's share of the noncontrolled entities' net income or loss is recorded in other income (expense), net in the accompanying Consolidated Statements of Operations. Distributions received reduce the Company's investment. The investment is evaluated for impairment if events or changes indicate that the carrying amount exceeds its fair value. If the carrying amount of an investment does exceed its fair value and the decline in fair value is deemed to be other-than-temporary, an impairment charge will be recorded.

Non-qualified Retirement Plan Assets and Liabilities

The Company has a non-qualified retirement plan (the "Excess Incentive Plan") that allows certain employees to voluntarily defer compensation. Assets held in trust, which are considered investment securities, are included in investments and are carried at fair value in accordance with ASC 820, Fair Value Measurement; the associated obligations to participants are included in other liabilities in the Company's Consolidated Balance Sheets and approximate the fair value of the associated assets. See Note 6 Investments for additional information related to the Excess Incentive Plan.

Deferred Commissions

Deferred commissions, which are included in other assets in the Company's Consolidated Balance Sheets, are commissions paid to broker-dealers on sales of certain mutual fund share classes. Deferred commissions are recovered by the receipt of monthly asset-based distributor fees from the mutual funds or contingent deferred sales charges received upon redemption of shares within the contingent deferred sales charge period, depending on the fund share class. The deferred costs resulting from the sale of shares are amortized on a straight-line basis over the period during which redemptions by the purchasing shareholder are subject to a contingent deferred sales charge, depending on the fund share class, or until the underlying shares are redeemed. Deferred commissions are periodically assessed for impairment and additional amortization expense is recorded, as appropriate.

Furniture, Equipment and Leasehold Improvements, Net

Furniture, equipment and leasehold improvements are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of three to seven years for furniture and office equipment, and three to five years for computer equipment and software. Leasehold improvements are depreciated over the shorter of the remaining estimated lives of the related leases or useful lives of the improvements. Major renewals or betterments are capitalized, and recurring repairs and maintenance are expensed as incurred.

Leases

The Company currently leases office space and equipment under various leasing arrangements. Leases are classified as either capital leases or operating leases, as appropriate. Most lease agreements are classified as operating leases and contain renewal options, rent escalation clauses or other inducements provided by the lessor. Rent expense under non-cancelable operating leases with scheduled rent increases or rent holidays is accounted for on a straight-line basis over the lease term, beginning on the date of initial possession or the effective date of the lease agreement. The amount of the excess of straight-line rent expense over scheduled payments is recorded as a deferred liability. Build-out allowances and other such lease incentives are recorded as deferred credits and are amortized on a straight-line basis as a reduction of rent expense beginning in the period they are deemed to be earned, which generally coincides with the effective date of the lease.

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Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price of acquisitions and mergers over the identified net assets and liabilities acquired. In accordance with ASC 350, Goodwill and Other Intangible Assets, goodwill is not amortized. A single reporting unit has been identified for the purpose of assessing potential impairments of goodwill. An impairment analysis of goodwill is performed annually or more frequently, if warranted by events or changes in circumstances affecting the Company's business. The Company follows the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2011-08, Testing Goodwill for Impairment, which states that an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. The Company's 2018 and 2017 annual goodwill impairment analysis did not result in any impairment charges.

Definite-lived intangible assets are comprised of acquired investment advisory contracts, trade names and certain non-competition agreements. These assets are amortized on a straight-line basis over the estimated useful lives of such assets, which range from five to sixteen years. Definite-lived intangible assets are evaluated for impairment on an ongoing basis whenever events or circumstances indicate that the carrying value of the definite-lived intangible asset may not be fully recoverable. The Company determines if impairment has occurred by comparing estimates of future undiscounted cash flows to the carrying value of assets. Assets are considered impaired, and impairment is recorded, if the carrying value exceeds the expected future undiscounted cash flows.

Indefinite-lived intangible assets are comprised of trade names and closed-end and exchange traded fund investment advisory contracts. These assets are tested for impairment annually or when events or changes in circumstances indicate the assets might be impaired. The Company follows ASU No. 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment, which provides entities with an option to perform a qualitative assessment of indefinite-lived intangible assets other than goodwill for impairment to determine if additional impairment testing is necessary. The Company's 2018 and 2017 annual indefinite-lived intangible assets impairment analysis did not result in any impairment charges.

Treasury Stock

Treasury stock is accounted for under the cost method and is included as a deduction from equity in the Stockholders' Equity section of the Consolidated Balance Sheets. Upon any subsequent resale, the treasury stock account is reduced by the cost of such stock.

Revenue Recognition

The Company's revenues are recognized when a performance obligation is satisfied, which occurs when control of the services is transferred to customers. Investment management fees, distribution and service fees and administration and shareholder service fees are generally calculated as a percentage of average net assets of the investment portfolios managed. The net asset values from which investment management, distribution and service and administration and shareholder service fees are calculated are variable in nature and subject to factors outside of the Company's control such as deposits, withdrawals and market performance. Because of this, they are considered constrained until the end of the contractual measurement period (monthly or quarterly) which is when asset values are generally determinable.

Investment Management Fees

The Company provides investment management services pursuant to investment management agreements through its affiliated investment advisers (each an "Adviser"). Investment management services represent a series of distinct daily service periods which are performed over time. Fees earned on funds are based on each fund’s average daily or weekly net assets which are generally received and calculated on a monthly basis. The Company records its management fees net of investment management fees paid to unaffiliated subadvisers, as the Company considers itself an agent of the fund as it relates to the day-to-day investment management services performed by unaffiliated subadvisers, with the Company's performance obligation being to arrange for the provision of that service and not control the specified service before that service is performed. Amounts paid to unaffiliated subadvisers for the years ended December 31, 2018, 2017 and 2016 were $46.7 million, $46.7 million and $47.2 million, respectively.

Retail separate account fees are generally based on the end of the preceding or current quarter's asset values or on an average of month-end balances. Institutional account fees are generally based on an average of month-end balances or current quarter's asset values. Fees for structured finance products, for which the Company acts as the collateral manager, consist of senior, subordinated and, in certain instances, incentive management fees. Senior and subordinated management fees are calculated at a contractual fee rate applied against the end of the preceding quarter par value of the total collateral being managed with subordinated fees being recognized only after certain portfolio criteria are met. Incentive fees on certain of the Company's CLOs are typically a percentage of the excess cash flows available to holders of the subordinated notes, above a threshold level internal rate of return.

Distribution and Service Fees

Distribution and service fees are asset-based fees earned from open-end funds for distribution services. Depending on the fund type or share class, these fees primarily consist of an asset-based fee that is charged to the fund over a period of years to cover allowable sales and marketing expenses for the fund or front-end sales charges which are based on a percentage of the offering price. Asset-based distribution and service fees are primarily based on percentages of the average daily net assets value and are paid monthly pursuant to the terms of the respective distribution and service fee contracts.

Distribution and service fees represent two performance obligations comprised of distribution and related shareholder servicing activities. Distribution services are generally satisfied upon the sale of a fund share. Shareholder servicing activities are generally services satisfied over time.

The Company distributes its open-end funds through unaffiliated financial intermediaries that comprise national and regional broker dealers. These unaffiliated financial intermediaries provide distribution and shareholder service activities on behalf of the Company. The Company passes related distribution and service fees to these unaffiliated financial intermediaries for these services and considers itself the principal in these arrangements as it has control of the services prior to the services being transferred to the customer. These payments are classified within distribution and other asset-based expenses.

Administration & Shareholder Service Fees

The Company provides administrative fund services to its open-end funds and certain of its closed-end funds and shareholder services to its open-end funds. Administration and shareholder services are performed over time. The Company earns fees based on each fund's average daily or weekly net assets which are calculated and paid monthly. Administrative fund services include: record keeping, preparing and filing documents required to comply with securities laws, legal administration and compliance services, customer service, supervision of the activities of the funds' service providers, tax services and treasury services as well as providing office space, equipment and personnel that may be necessary for managing and administering the business affairs of the funds. Shareholder services include maintaining shareholder accounts, processing shareholder transactions, preparing filings and performing necessary reporting, among other things.

Other income and fees consist primarily of redemption income on the early redemption of certain share classes of mutual funds.

Advertising and Promotion

Advertising and promotional costs include print advertising and promotional items and are expensed as incurred. These costs are classified in other operating expenses in the Consolidated Statements of Operations.

Stock-based Compensation

The Company accounts for stock-based compensation expense in accordance with ASC 718, Compensation—Stock Compensation ("ASC 718"), which requires the measurement and recognition of compensation expense for share-based awards based on the estimated fair value on the date of grant.

Restricted stock units ("RSUs") are stock awards that entitle the holder to receive shares of the Company’s common stock as the award vests over time or when certain performance targets are achieved. The fair value of each RSU award is based on the fair market value price on the date of grant unless it contains a performance metric that is considered a market condition.

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RSUs that contain a market condition are valued using a simulation valuation model. Compensation expense for RSU awards is recognized ratably over the vesting period on a straight-line basis.

Income Taxes

The Company accounts for income taxes in accordance with ASC 740, Income Taxes, ("ASC 740") which requires recognition of the amount of taxes payable or refundable for the current year, as well as deferred tax liabilities and assets for the future tax consequences of events that have been included in the Company's financial statements or tax returns. Deferred tax liabilities and assets result from temporary differences between the book value and tax basis of the Company's assets, liabilities and carry-forwards, such as net operating losses or tax credits.

The Company's methodology for determining the realizability of deferred tax assets includes consideration of taxable income in prior carryback year(s) if carryback is permitted under the tax law, as well as consideration of the reversal of deferred tax liabilities that are in the same period and jurisdiction and are of the same character as the temporary differences that gave rise to the deferred tax assets. The Company's methodology also includes estimates of future taxable income from its operations, as well as the expiration dates and amounts of carry-forwards related to net operating losses and capital losses. These estimates are projected through the life of the related deferred tax assets based on assumptions that the Company believes to be reasonable and consistent with demonstrated operating results. Changes in future operating results not currently forecasted may have a significant impact on the realization of deferred tax assets. Valuation allowances are provided when it is determined that it is more likely than not that the benefit of deferred tax assets will not be realized.

Comprehensive Income

The Company reports all changes in comprehensive income in the Consolidated Statements of Changes in Stockholders' Equity and the Consolidated Statements of Comprehensive Income. Comprehensive income includes net income (loss), foreign currency translation adjustments (net of tax) and unrealized gains and losses on investments classified as available-for-sale (net of tax).

Earnings per Share

Earnings per share ("EPS") is calculated in accordance with ASC 260, Earnings per Share. Basic EPS excludes dilution for potential common stock issuances and is computed by dividing basic net income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, including: (1) shares issuable upon the vesting of RSUs and common stock option exercises using the treasury stock method; and (2) shares issuable upon the conversion of the Company's mandatory convertible preferred stock, as determined under the if-converted method. For purposes of calculating diluted EPS, preferred stock dividends have been subtracted from net income (loss) in periods in which utilizing the if-converted method would be anti-dilutive.

Fair Value Measurements and Fair Value of Financial Instruments

ASC 820, Fair Value Measurements and Disclosures, establishes a framework for measuring fair value and a valuation hierarchy based upon the transparency of inputs used in the valuation of an asset or liability. The FASB defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Classification within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The valuation hierarchy contains three levels as follows:

Level 1—Unadjusted quoted prices for identical instruments in active markets. Level 1 assets and liabilities may include debt securities and equity securities that are traded in an active exchange market.

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 in which all significant inputs and significant value drivers are observable in active markets. Level 2 inputs may include observable market data such as closing market prices provided by independent pricing services after considering factors such as the yields or prices of comparable investments of comparable quality, coupon, maturity, call rights and other potential prepayments, terms and type, reported transactions, indications as to values from dealers and general market conditions. In addition, pricing services may determine the fair value of equity securities traded principally in foreign markets when it has been determined that there has been a significant trend in the U.S.

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equity markets or in index futures trading. Level 2 assets and liabilities may include debt and equity securities, purchased loans and over-the-counter derivative contracts whose fair value is determined using a pricing model without significant unobservable market data inputs.

Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable in active exchange markets.

Recent Accounting Pronouncements

New Accounting Standards Implemented

On January 1, 2018, the Company adopted the new Accounting Standards Codification ("ASC") 606, Revenue from Contracts with Customers ("ASC 606"), pursuant to Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, and all the related amendments ("the new revenue standard") using the modified retrospective approach. The core principle of the new revenue standard is that revenue is recognized upon the transfer of promised goods or services to customers in an amount that reflects the expected consideration to be received for the goods or services. Based on the revised criteria in the new revenue standard for determining whether the Company is acting as a principal or agent, certain costs that were previously presented on a net of revenue basis are now presented on a gross basis. The comparative periods have not been restated and continue to be reported under the accounting standards in effect for those periods. No cumulative-effect adjustment to the balance sheet was necessary upon the adoption of ASC 606. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). On January 1, 2018, the Company adopted amendments to ASC 825 - Financial Instruments pursuant to ASU 2016-01. This standard requires all equity investments (other than those accounted for under the equity method) to be measured at fair value with changes in the fair value recognized through net income. The Company recorded a $0.2 million cumulative-effect adjustment to the balance sheet upon adoption.

ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). On January 1, 2018, the Company adopted amendments to ASC 230 - Statement of Cash Flows ("ASC 230") on a retrospective basis pursuant to ASU 2016-15. This standard clarifies the treatment of several cash flow activities. ASU 2016-15 also clarifies that when cash receipts and cash payments have aspects of more than one classification of cash flows and cannot be separated, classification will depend on the predominant source or use. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash ("ASU 2016-18"). On January 1, 2018, the Company adopted amendments to ASC 230 on a retrospective basis pursuant to ASU 2016-18. This standard requires the inclusion of restricted cash with cash and cash equivalents when reconciling the beginning and ending cash on the statement of cash flows. Restricted cash includes cash pledged or on deposit with brokers of consolidated investment products. Cash, cash equivalents and restricted cash reported on the consolidated statements of cash flows now includes $0.8 million, $1.0 million and $10.4 million of cash pledged or on deposit of consolidated investment products as of December 31, 2017, 2016 and 2015, respectively, as well as previously reported cash and cash equivalents. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

ASU 2017-01, Clarifying the Definition of a Business ("ASU 2017-01"). On January 1, 2018, the Company adopted amendments to ASC 805 - Business Combinations ("ASC 805") pursuant to ASU 2017-01 and will apply the standard prospectively. This standard provides guidance on evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

ASU 2017-04, Intangibles - Goodwill and Other: Simplifying the Accounting for Goodwill Impairment ("ASU 2017-04"). On January 1, 2018, the Company adopted amendments to ASC 350 - Intangibles - Goodwill and Other pursuant to ASU 2017-04 and will apply the standard prospectively for all future annual and interim goodwill impairment tests. Under ASU 2017-04, a goodwill impairment is defined to be the amount by which a reporting unit’s carrying value exceeds its fair value. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

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ASU 2018-05, Income Taxes (Topic 740), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 ("ASU 2018-05"). In March 2018, the Company adopted the amendments to ASC 740 - Income Taxes pursuant to ASU 2018-05. The standard adds various Securities and Exchange Commission ("SEC") paragraphs pursuant to the issuance of the December 2017 SEC Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118"), which was effective immediately. The SEC issued SAB 118 to address concerns about reporting entities' ability to comply with the accounting requirements to recognize all of the effects of the Tax Cuts and Jobs Act in the period of enactment on a timely basis. SAB 118 allows disclosure stating that timely determination of some or all of the income tax effects from the Tax Cuts and Jobs Act are incomplete by the due date of the financial statements and if possible to provide a reasonable estimate of the income tax effects. We have accounted for the tax effects of the Tax Cuts and Jobs Act under the guidance of SAB 118. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

New Accounting Standards Not Yet Implemented

In August 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-15, Intangibles-Goodwill and Other- Internal-Use Software (Subtopic 350-40) ("ASU 2018-15"). This standard aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software, including an internal use software license. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the adoption of this standard to have a material impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820) ("ASU 2018-13"). This standard modifies the disclosure requirements on fair value measurements and is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating the potential impact of the guidance but does not expect the adoption of this standard to have a material impact on the Company's consolidated financial statements.

In July 2018, the FASB issued ASU 2018-09, Codification Improvements ("ASU 2018-09"). This standard does not prescribe any new accounting guidance, but instead makes minor improvements and clarifications of several different FASB ASC areas based on comments and suggestions made by various stakeholders. Certain updates are applicable immediately while other updates provide for a transition period for adoption over the next fiscal year beginning after December 15, 2018. The Company does not expect the adoption of this standard to have a material impact on the Company's consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("ASU 2018-02"). The standard provides financial statement preparers with an option to reclassify stranded tax effects within accumulated other comprehensive income to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded. ASU 2018-02 is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the adoption of this guidance to have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"). The standard replaces current codification Topic 840 - Leases with updated guidance on accounting for leases and requires a lessee to recognize assets and liabilities arising from an operating lease on the balance sheet, whereas previous guidance did not require lease assets and liabilities to be recognized for most operating leases. Furthermore, this standard permits companies to make an accounting policy election to not recognize lease assets and liabilities for leases with a term of 12 months or less. For both finance leases and operating leases, the lease liability should be initially measured at the present value of the lease payments. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee will not significantly change under this new guidance. In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842 (Leases), which provides narrow amendments to clarify how to apply certain aspects of ASU 2016-02, allowing entities the option to instead apply the provisions of the new lease standards at the effective date without adjusting comparative periods presented. We plan to elect this optional transition method along with the practical expedients permitted under the transition guidance that will retain the lease classification and initial direct costs for any leases that exist prior to adoption of the new standards. We have substantially completed aggregating and evaluating our lease contracts. Adoption of these new lease standards is effective January 1, 2019. Upon adoption, we anticipate recording a right-of-use asset and lease liability on our consolidated balance sheet similar in magnitude to the total present value of outstanding future minimum payments for operating leases shown in

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Notes to Consolidated Financial Statements—(Continued)

Note 11. The adoption of these standards is not expected to have a material impact on our consolidated statements of operations or consolidated statements of cash flows.

3. Revenues

Revenue Disaggregated by Source

The following table summarizes revenue by source:

	Years Ended December 31,		
($ in thousands)	2018	2017 (1)	2016 (1)
Investment management fees			
Open-end funds	$231,175	$175,260	$129,542
Closed-end funds	41,455	44,687	43,342
Retail separate accounts	73,532	54,252	40,155
Institutional accounts	77,711	46,600	18,707
Structured products	9,622	6,302	2,211
Other products	3,526	3,974	1,273
Total investment management fees	437,021	331,075	235,230
Distribution and service fees	50,715	44,322	48,250
Administration and shareholder service fees	63,614	48,996	38,261
Other income and fees	885	1,214	813
Total revenues	$552,235	$425,607	$322,554

(1) Prior period amounts have not been adjusted and are reported in accordance with historical accounting under ASC 605, Revenue Recognition

Financial Statement Impact of the Adoption of ASC 606

The adoption of ASC 606 resulted in a change from the Company’s treatment under ASC 605 whereby front-end sales charges earned for the sale execution of certain share classes were previously presented net of the amounts retained by unaffiliated third-party dealers and banks. These front-end sales charges earned are now presented on a gross basis under ASC 606.

The impact of adoption of ASC 606 on the Company's consolidated statement of operations was as follows:

	Year Ended December 31, 2018		
($ in thousands)	As Reported	Balance Under Prior ASC 605	Effect of Change Higher/(Lower)
Revenues			
Distribution and service fees	$50,715	$44,739	$ 5,976
Operating Expenses			
Distribution and other asset-based expenses	$92,441	$86,465	$ 5,976

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Notes to Consolidated Financial Statements—(Continued)

4. Business Combinations

Sustainable Growth Advisers, LP ("SGA")

On July 1, 2018, the Company completed the acquisition of 70% of the outstanding limited partnership interests of SGA and 100% of the membership interests in its general partner, SGIA, LLC ("SGA Acquisition"). SGA is an investment manager specializing in growth equity investing in U.S. and global equity portfolios. The SGA Acquisition expands the Company's offerings of investment strategies from its affiliated managers and diversifies its client base, particularly among institutional investors and international clients. The total purchase price of the SGA Acquisition was $129.5 million. The Company accounted for the acquisition in accordance with ASC 805, Business Combinations. The purchase price was allocated to the assets acquired, liabilities assumed and non-controlling interests based upon their estimated fair values at the date of the SGA Acquisition. Goodwill of $120.2 million and other intangible assets of $62.0 million were recorded as a result of the SGA Acquisition. The Company expects $127.5 million of this amount to be tax deductible over 15 years. The Company has not completed its final assessment of the fair values of purchased receivables or acquired contracts. The final fair value of the net assets acquired may result in adjustments to certain assets and liabilities, including goodwill.

The following table summarizes the identified acquired assets, liabilities assumed and redeemable noncontrolling interests as of the acquisition date:

($ in thousands)	July 1, 2018
Assets:	
Cash and cash equivalents	$2,505
Investments	262
Accounts receivable	6,649
Furniture, equipment and leasehold improvements	70
Intangible assets	62,000
Goodwill	120,213
Other assets	659
Total Assets	192,358
Liabilities	
Accrued compensation and benefits	824
Accounts payable and accrued liabilities	6,534
Total liabilities	7,358
Redeemable noncontrolling interests	55,500
Total Net Assets Acquired	$129,500

Identifiable Intangible Assets Acquired

In connection with the allocation of the purchase price, the Company identified the following intangible assets:

($ in thousands)	July 1, 2018 Approximate Fair Value	Weighted Average of Useful Life
Definite-lived intangible assets:		
Institutional and retail separate account investment contracts	$49,000	6 years
Trade name	7,000	10 years

Non-competition agreements	6,000	5 years
Total definite-lived intangible assets	$62,000	

The following unaudited pro forma condensed consolidated results of operations are provided for illustrative purposes only and assume that the SGA Acquisition occurred on January 1, 2017. The unaudited pro forma information also reflects adjustment for transaction and integration expenses as if the SGA Acquisition had been consummated on January 1, 2017. This

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Notes to Consolidated Financial Statements—(Continued)

unaudited information should not be relied upon as being indicative of historical results that would have been obtained if the SGA Acquisition had occurred on that date, nor of the results that may be obtained in the future.

	December 31,	
($ in thousands, except per share amounts)	2018	2017
Total Revenues	$569,465	$454,156
Net Income (Loss) Attributable to Common Stockholders	$69,341	$26,175

RidgeWorth Investments

On June 1, 2017, the Company acquired RidgeWorth Investments (the "RW Acquisition"), a multi-boutique asset manager with approximately $40.1 billion in assets under management, including $35.7 billion in long term assets under management and $4.4 billion in liquidity strategies.

The total purchase price of the RW Acquisition was $547.1 million, comprising $485.2 million for the business and $61.9 million for certain balance sheet investments. The Company accounted for the RW Acquisition in accordance with ASC 805. The purchase price was allocated to the assets acquired and liabilities assumed based upon their estimated fair values at the date of the RW Acquisition. No incremental measurement period adjustments were recorded in fiscal 2018; the measurement period was complete on June 1, 2018.

The following table summarizes the initial estimate of amounts of identified acquired assets and liabilities assumed as of the acquisition date:

($ in thousands)	June 1, 2017
Assets:	
Cash and cash equivalents	$39,343
Investments	5,516
Accounts receivable	20,311
Assets of consolidated investment products ("CIP")	
Cash and cash equivalents of CIP	38,261
Investments of CIP	899,274
Other assets of CIP	19,158
Furniture, equipment and leasehold improvements	5,505
Intangible assets	275,700
Goodwill	163,365
Deferred taxes, net	6,590
Other assets	3,003
Total Assets	1,476,026
Liabilities:	
Accrued compensation and benefits	18,263
Accounts payable and accrued liabilities	11,858
Other liabilities	2,601
Liabilities of CIP	
Notes payable of CIP	770,160
Securities purchased payable and other liabilities of CIP	109,881
Noncontrolling Interests of CIP	16,181

Total Liabilities & Noncontrolling Interests	928,944
Total Net Assets Acquired	$547,082

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Notes to Consolidated Financial Statements—(Continued)

Identifiable Intangible Assets Acquired

In connection with the allocation of the purchase price, we identified the following intangible assets:

($ in thousands)	June 1, 2017 Approximate Fair Value	Weighted Average of Useful Life
Definite-lived intangible assets:		
Mutual fund investment contracts	$189,200	16 years
Institutional and retail separate account investment contracts	77,000	10 years
Trademarks/Trade names	800	10 years
Total finite-lived intangible assets	267,000	
Indefinite-lived intangible assets:		
Trade names	8,700	N/A
Total identifiable intangible assets	$275,700	

The following unaudited pro forma condensed consolidated results of operations are provided for illustrative purposes only and assume that the RW Acquisition occurred on January 1, 2016. The unaudited pro forma information also reflects adjustment for transaction and integration expenses as if the RW Acquisition had been consummated on January 1, 2016. The unaudited pro forma financial information does not reflect any adjustment to the timing of any synergies or other costs savings realized. This unaudited information should not be relied upon as being indicative of historical results that would have been obtained if the RW Acquisition had occurred on that date, nor of the results that may be obtained in the future.

	Years Ended December 31,	
($ in thousands, except per share amounts)	2017	2016
Total Revenues	$489,094	$466,429
Net Income (Loss) Attributable to Common Stockholders	$27,523	$23,511

5. Goodwill and Other Intangible Assets

Intangible assets, net are summarized as follows:

	December 31,	
($ in thousands)	2018	2017
Definite-lived intangible assets, net:		
Investment contracts and other	$487,747	$425,747
Accumulated amortization	(192,451)	(167,309)
Definite-lived intangible assets, net	295,296	258,438
Indefinite-lived intangible assets	43,516	43,516
Total intangible assets, net	$338,812	$301,954

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Notes to Consolidated Financial Statements—(Continued)

Activity in goodwill and intangible assets, net is as follows:

	Years Ended December 31,		
($ in thousands)	2018	2017	2016
Intangible assets, net			
Balance, beginning of period	$301,954	$38,427	$40,887
Acquisitions (1)	62,000	275,700	—
Amortization expense	(25,142)	(12,173)	(2,460)
Balance, end of period	$338,812	$301,954	$38,427
Goodwill			
Balance, beginning of period	$170,153	$6,788	$6,701
Acquisitions (1)	120,213	163,365	—
Acquisition related adjustments	—	—	87
Balance, end of period	$290,366	$170,153	$6,788

(1) - See Note 4 for details on the acquired goodwill and intangible assets.

Definite-lived intangible asset amortization for the next five years and thereafter is estimated as follows ($ in thousands):

Fiscal Year	Amount
2019	$30,110
2020	29,945
2021	29,933
2022	29,809
2023	29,148
2024 and Thereafter	146,351
	$295,296

At December 31, 2018, the weighted average estimated remaining amortization period for definite-lived intangible assets is 11.5 years.

6. Investments

Investments consist primarily of investments in the Company's sponsored products. The Company’s investments, excluding the assets of consolidated investment products discussed in Note 19, at December 31, 2018 and 2017 were as follows:

	December 31,	
($ in thousands)	2018	2017
Investment securities - fair value	$59,271	$69,101
Investment securities - available for sale	2,023	20,662
Equity method investments	10,573	11,098
Nonqualified retirement plan assets	6,716	6,706
Other investments	975	925
Total investments	$79,558	$108,492

Investment Securities - fair value

Investment securities - fair value consist of investments in the Company's sponsored funds, separately managed accounts and trading debt securities. The composition of the Company’s investment securities - fair value is summarized as follows:

December 31, 2018

($ in thousands)	Cost	Fair Value
Investment Securities - Equity:		
Sponsored funds	$43,507	$40,191
Equity securities	16,380	16,981
Trading debt securities	3,816	2,099
Total investment securities - equity	$63,703	$59,271

December 31, 2017

($ in thousands)	Cost	Fair Value
Investment Securities - Equity:		
Sponsored funds	$50,845	$50,614
Equity securities	13,141	15,810
Trading debt securities	3,816	2,677
Total investment securities - equity	$67,802	$69,101

For the year ended December 31, 2018, the Company recognized a net realized gain of $1.8 million on investment securities - equity. For the years ended December 31, 2017 and 2016, the Company recognized net realized losses of $1.5 million and $0.3 million, respectively, on investment securities - equity.

Investments securities - available for sale

The investment securities - available for sale consists of investments in CLOs for which the Company provides investment management services and does not consolidate. The composition of the Company's investment securities - available for sale is summarized as follows:

December 31, 2018

($ in thousands)	Cost	Unrealized Loss	Unrealized Gain	Fair Value
Investments in CLOs	$3,696	$ (1,673)	$ —	$2,023

December 31, 2017

($ in thousands)	Cost	Unrealized Loss	Unrealized Gain	Fair Value
Investments in CLOs	$21,240	$ (630)	$ 52	$20,662

Equity Method Investments

The Company's equity method investments primarily consist of investments in limited partnerships. For the years ended December 31, 2018 and 2017, distributions from equity method investments were $4.2 million and $0.9 million, respectively. For the year ended December 31, 2016, there were no distributions from equity method investments. For the year ended December 31, 2016, the Company made capital contributions of $2.5 million to one of its equity method investments, and the remaining capital commitment at December 31, 2018 is $0.7 million.

Nonqualified Retirement Plan Assets

The Company's Excess Incentive Plan allows certain employees to voluntarily defer compensation. The Company holds the Excess Incentive Plan assets in a rabbi trust, which is subject to the claims of the Company’s creditors in the event of the Company’s bankruptcy or insolvency. Each participant is responsible for designating investment options for assets they contribute, and the ultimate distribution paid to each participant reflects any gains or losses on the assets realized while in the trust. Assets held in trust are included in investments and are carried at fair value utilizing Level 1 valuation techniques in

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accordance with ASC 320; the associated obligations to participants are included in other liabilities in the Company's Consolidated Balance Sheets.

Other Investments

Other investments represent interests in entities not accounted for under the equity method such as the cost method or fair value.

7. Fair Value Measurements

The Company's assets and liabilities measured at fair value on a recurring basis, excluding the assets and liabilities of consolidated investment products discussed in Note 19, as of December 31, 2018 and December 31, 2017, by fair value hierarchy level were as follows:

December 31, 2018

($ in thousands)	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$158,596	$ —	$—	$158,596
Investment securities - fair value				
Sponsored funds	40,191	—	—	40,191
Equity securities	16,981	—	—	16,981
Trading debt securities	—	—	2,099	2,099
Investment securities - available for sale	—	—	2,023	2,023
Nonqualified retirement plan assets	6,716	—	—	6,716
Total assets measured at fair value	$222,484	$ —	$4,122	$226,606

December 31, 2017

($ in thousands)	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$72,993	$—	$—	$72,993
Investment securities - equity				
Sponsored funds	50,614	—	—	50,614
Equity securities	15,810	—	—	15,810
Trading debt securities	—	—	2,677	2,677
Investment securities - available for sale	—	18,900	1,762	20,662
Nonqualified retirement plan assets	6,706	—	—	6,706
Total assets measured at fair value	$146,123	$18,900	$4,439	$169,462

The following is a discussion of the valuation methodologies used for the Company's assets measured at fair value.

Cash equivalents represent investments in money market funds. Cash investments in actively traded money market funds are valued using published net asset values and are classified as Level 1.

Sponsored funds represent investments in open-end funds, closed-end funds and ETFs for which the Company acts as the investment manager. The fair value of open-end funds is determined based on their published net asset values and are categorized as Level 1. The fair value of closed-end funds and ETFs are determined based on the official closing price on the exchange they are traded on and are categorized as Level 1.

Equity securities include securities traded on active markets and are valued at the official closing price (typically last sale or bid) on the exchange on which the securities are primarily traded and are categorized as Level 1.

Trading debt securities and Investments - available for sale represent investments in CLOs for which the Company provides investment management services. The investments in CLOs are measured at fair value based on independent third party valuations and are categorized as Level 2 and Level 3. The independent third party valuations are based on discounted cash flow models and comparable trade data.

Nonqualified retirement plan assets represent mutual funds within a nonqualified retirement plan whose fair value is determined based on their published net asset value and are categorized as Level 1.

Cash, accounts receivable, accounts payable and accrued liabilities equal or approximate fair value based on the short-term nature of these instruments.

Transfers into and out of levels are reflected when significant inputs used for the fair value measurement, including market inputs or performance attributes, become observable or unobservable or when the Company determines it has the ability, or no longer has the ability, to redeem, in the near term, certain investments that the Company values using a net asset value, or if the book value no longer represents fair value. There were no transfers between Level 1 and Level 2 during the years ended December 31, 2018 and 2017.

The following table is a reconciliation of assets for Level 3 investments for which significant unobservable inputs were used to determine fair value:

	Twelve Months Ended December 31,	
($ in thousands)	2018	2017
Level 3 Investments (a)		
Balance at beginning of period	$4,439	$—
Acquired in business combination	—	2,916
Purchases	1,326	2,370
Change in unrealized gain (loss), net	(1,643)	(847)
Balance at end of period	$4,122	$4,439

(a) The investments that are categorized as Level 3 were valued utilizing third-party pricing information without adjustment.

8. Furniture, Equipment and Leasehold Improvements, Net

Furniture, equipment and leasehold improvements, net are summarized as follows:

	December 31,	
($ in thousands)	2018	2017
Furniture and office equipment	$12,543	$7,564
Computer equipment and software	6,811	9,274
Leasehold improvements	24,880	14,132
	44,234	30,970
Accumulated depreciation and amortization	(24,080)	(20,137)
Furniture, equipment and leasehold improvements, net	$20,154	$10,833

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Notes to Consolidated Financial Statements—(Continued)

9. Income Taxes

The components of the provision for income taxes are as follows:

	Years Ended December 31,		
($ in thousands)	2018	2017	2016
Current			
Federal	$18,864	$15,670	$12,790
State	3,668	1,985	1,855
Total current tax expense (benefit)	22,532	17,655	14,645
Deferred			
Federal	5,901	20,895	5,489
State	4,528	1,940	910
Total deferred tax expense (benefit)	10,429	22,835	6,399
Total expense (benefit) for income taxes	$32,961	$40,490	$21,044

The following presents a reconciliation of the provision (benefit) for income taxes computed at the federal statutory rate to the provision (benefit) for income taxes recognized in the Consolidated Statements of Operations for the years indicated:

	Years Ended December 31,					
($ in thousands)	2018		2017		2016	
Tax at statutory rate	$22,899	21 %	$28,150	35 %	$24,432	35 %
State taxes, net of federal benefit	6,450	6	3,548	4	2,010	3
Effect of U.S. tax reform (the Tax Act)	—	—	13,074	16	—	—
Effect of net income (loss) attributable to noncontrolling interests	(171)	—	(1,017)	(1)	(91)	—
Change in valuation allowance	4,508	4	(2,613)	(3)	(5,125)	(7)
Other, net	(725)	(1)	(652)	(1)	(182)	(1)
Income tax expense (benefit)	$32,961	30 %	$40,490	50 %	$21,044	30 %

The provision for income taxes reflects U.S. federal, state and local taxes at an effective tax rate of 30%, 50% and 30% for the years ended December 31, 2018, 2017 and 2016, respectively. The Company's tax position for the years ended December 31, 2018, 2017 and 2016 was impacted by changes in the valuation allowance related to the unrealized and realized gains and losses on the Company’s investments.

On December 22, 2017, the Tax Cuts and Jobs Act (the Tax Act) was enacted which made significant changes to federal income tax law, including reducing the statutory corporate income tax rate to 21 percent from 35 percent. The SEC issued Staff Accounting Bulletin No. 118, which specifies, among other things, that reasonable estimates of the income tax effects of the Tax Act should be used, if determinable. The accounting for these elements of the 2017 Tax Act is complete.

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Notes to Consolidated Financial Statements—(Continued)

Deferred taxes resulted from temporary differences between the amounts reported in the consolidated financial statements and the tax basis of assets and liabilities. The tax effects of temporary differences are as follows:

	December 31,	
($ in thousands)	2018	2017
Deferred tax assets:		
Intangible assets	$7,352	$10,706
Net operating losses	14,750	16,769
Compensation accruals	11,728	7,681
Investments	7,557	7,322
Capital losses	512	870
Other	942	1,675
Gross deferred tax assets	42,841	45,023
Valuation allowance	(8,439)	(3,088)
Gross deferred tax assets after valuation allowance	34,402	41,935
Deferred tax liabilities:		
Intangible assets	(12,286)	(9,507)
Gross deferred tax liabilities	(12,286)	(9,507)
Deferred tax assets, net	$22,116	$32,428

At each reporting date, the Company evaluates the positive and negative evidence used to determine the likelihood of realization of its deferred tax assets. The Company maintained a valuation allowance in the amount of $8.4 million and $3.1 million at December 31, 2018 and 2017, respectively, relating to deferred tax assets on items of a capital nature as well as certain state deferred tax assets.

As of December 31, 2018, the Company had net operating loss carry-forwards for federal income tax purposes represented by an $8.5 million deferred tax asset. The related federal net operating loss carry-forwards are scheduled to begin to expire in the year 2031. As of December 31, 2018, the Company had state net operating loss carry-forwards, varying by subsidiary and jurisdiction, represented by a $6.3 million deferred tax asset. The state net operating loss carry-forwards are scheduled to begin to expire in 2019.

Internal Revenue Code Section 382 limits tax deductions for net operating losses, capital losses and net unrealized built-in losses after there is a substantial change in ownership in a corporation’s stock involving a 50 percentage point increase in ownership by 5% or larger stockholders. During the year ended December 31, 2009, the Company incurred an ownership change as defined in Section 382. At December 31, 2018, the Company has pre-change losses represented by deferred tax assets totaling $11.6 million. The utilization of these assets is subject to an annual limitation of $1.1 million.

The Company has had no unrecognized tax benefits activity for the years ended December 31, 2018, 2017 and 2016. The Company’s practice is to classify interest and penalties related to income tax matters in income tax expense. The Company recorded no interest or penalties related to unrecognized tax benefits at December 31, 2018, 2017 and 2016.

The earliest federal tax year that remains open for examination is 2015. The earliest open years in the Company’s major state tax jurisdictions are 2010 for Connecticut and 2015 for all of the Company's remaining state tax jurisdictions.

10. Debt

Credit Agreement

On June 1, 2017, in connection with the RW Acquisition, the Company entered into a new credit agreement ("Credit Agreement") comprising (1) $260.0 million of seven-year term debt ("Term Loan") and (2) a $100.0 million five-year revolving credit facility ("Credit Facility"). On February 15, 2018 (the "Effective Date"), the Company entered into Amendment No. 1 (the "Amendment") to its Credit Agreement, which provided commitments for an additional $105.0 million of term loans

("Additional Term Loans") which were subject to, among other customary conditions, the substantially concurrent consummation of the SGA Acquisition. On July 2, 2018, the Company borrowed the $105.0 million of additional term loans and used the proceeds, in combination with balance sheet resources, to fund the SGA Acquisition. At December 31, 2018, $340.6 million was outstanding under the Term Loan and the Company had no borrowings under its Credit Facility. In accordance with ASC 835, Interest, the amounts outstanding under the Company's Term Loan are presented on the consolidated balance sheet net of related debt issuance costs which were $11.4 million as of December 31, 2018.

Amounts outstanding under the Credit Agreement for the Term Loan and the Credit Facility bear interest at an annual rate equal to, at the option of the Company, either (i) LIBOR (adjusted for reserves) for interest periods of one, two, three or six months (or, solely in the case of the Credit Facility, if agreed to by each relevant Lender, twelve months or periods less than one month), subject to a “floor” of 0% for the Credit Facility and 0.75% for the Term Loan, or (ii) an alternate base rate, in either case plus an applicable margin. The applicable margin on amounts outstanding under the Credit Agreement, commencing as of the Effective Date, is 2.50%, in the case of LIBOR-based loans, and 1.50% in the case of alternate base rate loans, in each case subject to a 25 basis point reduction based on the secured net leverage ratio (as defined in the Credit Agreement) of the Company as of the last day of the preceding fiscal quarter being not greater than 1.00 to 1.00, as reflected in certain financial reports required under the Credit Agreement.

The Credit Agreement includes a financial maintenance covenant that the Company will not permit the Total Net Leverage Ratio to exceed 2.50:1.00 as of the last day of any fiscal quarter, provided that this covenant will apply only if on such day the aggregate principal amount of outstanding revolving loans and letters of credit under the Credit Facility exceeds 30% of the aggregate revolving commitments as of such day.

The obligations of the Company under the Credit Agreement are guaranteed by certain of its subsidiaries (the "Guarantors") and secured by substantially all of the assets of the Company, subject to customary exceptions. The Credit Agreement contains customary affirmative and negative covenants, including covenants that affect, among other things, the ability of the Company and its subsidiaries to incur additional indebtedness, create liens, merge or dissolve, make investments, dispose of assets, engage in sale and leaseback transactions, purchase shares of our common stock, make distributions and dividends and pre-payments of junior indebtedness, engage in transactions with affiliates, enter into restrictive agreements, amend documentation governing junior indebtedness, modify its fiscal year, or modify its organizational documents, subject to customary exceptions, thresholds, qualifications and "baskets."

The Term Loan amortizes at the rate of 1.00% per annum payable in equal quarterly installments and will be mandatorily repaid with: (a) 50% of the Company’s excess cash flow, as defined in the Credit Agreement, on an annual basis, beginning with the fiscal year ended December 31, 2018, declining to 25% if the Company’s secured net leverage ratio declines below 1.0, and further declining to 0% if the Company’s secured net leverage ratio declines below 0.5; (b) the net proceeds of certain asset sales, casualty or condemnation events, subject to customary reinvestment rights; and (c) the proceeds of any indebtedness incurred other than indebtedness permitted to be incurred by the Credit Agreement.

At any time, upon timely notice, the Company may terminate the Credit Agreement in full, reduce the commitment under the Credit Facility in minimum specified increments or prepay the Term Loan in whole or in part, subject to the payment of breakage fees with respect to LIBOR-based loans and, in the case of any Term Loans that are prepaid in connection with a "repricing transaction" occurring within the six-month period following the closing date, a 1.00% premium.

Future minimum Term Loan payments (exclusive of unamortized debt issuance costs) as of December 31, 2018 are as follows ($ in thousands):

Year	Amount
2019	$3,651
2020	3,652
2021	3,651
2022	3,652
2023	3,651
2024	322,317
	$340,574

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11. Commitments and Contingencies

Legal Matters

The Company is regularly involved in litigation and arbitration as well as examinations, inquiries and investigations by various regulatory bodies, including the SEC, involving its compliance with, among other things, securities laws, client investment guidelines, laws governing the activities of broker-dealers and other laws and regulations affecting its products and other activities. Legal and regulatory matters of this nature involve or may involve but are not limited to the Company’s activities as an employer, issuer of securities, investor, investment adviser, broker-dealer or taxpayer. In addition, in the normal course of business, the Company discusses matters with its regulators raised during regulatory examinations or is otherwise subject to their inquiry. These matters could result in censures, fines, penalties or other sanctions.

The Company accrues for a liability when it is both probable that a liability has been incurred and the amount of the liability can be reasonably estimated. Significant judgment is required in both the determination of probability and the determination as to whether a loss is reasonably estimable. In addition, in the event the Company determines that a loss is not probable, but is reasonably possible, and it becomes possible to develop what the Company believes to be a reasonable range of possible loss, then the Company will include disclosures related to such matter as appropriate and in compliance with ASC 450, Loss Contingencies. The disclosures, accruals or estimates, if any, resulting from the foregoing analysis are reviewed at least quarterly and adjusted to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular matter. Based on information currently available, available insurance coverage and established reserves, the Company believes that the outcomes of its legal and regulatory proceedings are not likely, either individually or in the aggregate, to have a material adverse effect on the Company’s results of operations, cash flows or its consolidated financial condition. However, in the event of unexpected subsequent developments and given the inherent unpredictability of these legal and regulatory matters, the Company can provide no assurance that its assessment of any claim, dispute, regulatory examination or investigation or other legal matter will reflect the ultimate outcome and an adverse outcome in certain matters could, from time to time, have a material adverse effect on the Company’s results of operations or cash flows in particular quarterly or annual periods.

In re Virtus Investment Partners, Inc. Securities Litigation; formerly Tom Cummins v. Virtus Investment Partners Inc. et al

On February 20, 2015, a putative class action complaint was filed against the Company and certain of the Company’s current officers (the "defendants") in the United States District Court for the Southern District of New York (the "Court"). On August 21, 2015, the plaintiffs filed a Consolidated Class Action Complaint (the "Complaint") purportedly filed on behalf of all purchasers of the Company’s common stock between January 25, 2013 and May 11, 2015 (the "Class Period"). The Complaint alleged that, during the Class Period, the defendants disseminated materially false and misleading statements and concealed material adverse facts relating to certain funds and alleged claims under Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5. While the Company believed that the suit was without merit, on May 18, 2018, it executed a final settlement agreement with the plaintiffs settling all claims in the litigation in order to avoid the cost, distraction, disruption, and inherent litigation uncertainty. The settlement was approved by the Court on December 4, 2018, and on January 11, 2019, the Court entered final judgment, concluding the action.

Lease Commitments

The Company incurred rental expenses, primarily related to office space, under operating leases of $8.1 million, $6.2 million and $4.4 million in 2018, 2017 and 2016, respectively. Minimum aggregate rental payments required under operating leases that have initial or remaining non-cancellable lease terms in excess of one year as of December 31, 2018 are as follows: $6.1 million in 2019; $6.5 million in 2020; $5.1 million in 2021; $3.9 million in 2022; $3.5 million in 2023; and $12.9 million thereafter.

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12. Equity Transactions

Stock Repurchases

As of December 31, 2018, 4.2 million shares of the Company's common stock have been authorized to be repurchased under the Board of Directors approved share repurchase program and 624,803 shares remain available for repurchase. Under the terms of the program, the Company may repurchase shares of its common stock from time to time at its discretion through open market repurchases, privately negotiated transactions and/or other mechanisms, depending on price and prevailing market and business conditions. The program, which has no specified term, may be suspended or terminated at any time.

During the year ended December 31, 2018, the Company repurchased a total of 258,953 common shares for approximately $27.5 million. As of December 31, 2018, the Company had repurchased a total of 3,555,242 shares of common stock at a weighted average price of $106.65 per share plus transaction costs for a total cost of $379.2 million.

Equity Issuances

During the year ended December 31, 2017, the Company issued 1,260,169 shares of common stock consisting of: (1) 1,046,500 shares of common stock in a public offering, which included the exercise of the underwriters' over-allotment option, for net proceeds of $109.5 million, after underwriting discounts, commissions and other offering expenses; and (2) 213,669 shares of the Company's common stock as part of the consideration for the RW Acquisition.

During the year ended December 31, 2017, the Company issued 1,150,000 shares of 7.25% mandatory convertible preferred stock ("MCPS") in a public offering which included the exercised over-allotment option for net proceeds of $111.0 million, after underwriting discounts, commissions and other offering expenses. The MCPS was issued with a liquidation preference of $100.00 per share. Unless converted earlier, each share of MCPS will convert automatically on February 1, 2020 (the "mandatory conversion date") into between 0.7583 and 0.9100 shares of common stock (a conversion price range between $131.88 to $109.90 per share, respectively), subject to customary anti-dilution adjustments. The number of shares of common stock issuable upon conversion will be determined based on the volume-weighted average price per share of the Company's common stock over the 20 consecutive trading day period beginning on, and including, the 22nd scheduled trading day immediately preceding the mandatory conversion date. Each share of MCPS can be converted prior to the mandatory conversion date at the option of the holder at the minimum conversion rate of 0.7583 or at a specified rate, in the event of a fundamental change as defined in the certificate of designations of the MCPS.

Dividends on the MCPS will be payable on a cumulative basis when, as and if declared by the Board of Directors, at an annual rate of 7.25 percent on the liquidation preference of $100.00 per share. If declared, these dividends will be paid in cash, or, subject to certain limitations, in shares of Virtus' common stock (or a combination) on February 1, May 1, August 1, and November 1 of each year, commencing May 1, 2017, and continuing to, and including, February 1, 2020.

Dividends

During the first and second quarters of the year ended December 31, 2018, the Board of Directors declared quarterly cash dividends on the Company's common stock of $0.45 each. During the third and fourth quarters of the year ended

December 31, 2018, the Board of Directors declared quarterly cash dividends on the Company's common stock of $0.55 each. Total dividends declared on the Company's common stock were $15.3 million for the year ended December 31, 2018.

During each quarter of the year ended December 31, 2018, the Board of Directors declared quarterly cash dividends on the Company's preferred stock of $1.8125 each. Total dividends declared on the Company's preferred stock were $8.3 million for the year ended December 31, 2018.

At December 31, 2018, $7.8 million was included as dividends payable in liabilities in the Consolidated Balance Sheet. This balance represents the fourth quarter dividends of $2.1 million to be paid on February 15, 2019 for the Company's preferred stock shareholders of record as of January 31, 2019 and $5.7 million to be paid on February 15, 2019 for the Company's common stock shareholders of record as of January 31, 2019.

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Notes to Consolidated Financial Statements—(Continued)

13. Accumulated Other Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss), by component, are as follows:

($ in thousands)	Unrealized Gains (Losses) on Securities Available-for-Sale	Foreign Currency Translation Adjustments
Balance December 31, 2017	$ (612)	$ 12
Unrealized net gain (loss) on available-for-sale securities, net of tax of $111	(292)	—
Foreign currency translation adjustments, net of tax of $6	—	(17)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax of ($61) (1)	178	—
Net current-period other comprehensive income (loss)	(114)	(17)
Balance December 31, 2018	$ (726)	$ (5)

(1) On January 1, 2018, the Company adopted amendments to ASC 825 pursuant to ASU 2016-01. This standard requires all equity investments (other than those accounted for under the equity method) to be measured at fair value with changes in the fair value recognized through net income.

($ in thousands)	Unrealized Gains (Losses) on Securities Available-for-Sale	Foreign Currency Translation Adjustments
Balance December 31, 2016	$ (224)	$ —
Unrealized net gain (loss) on available-for-sale securities, net of tax of $100	(388)	—
Foreign currency translation adjustments, net of tax of ($4)	—	12
Net current-period other comprehensive income (loss)	(388)	12
Balance December 31, 2017	$ (612)	$ 12

14. Retirement Savings Plan

The Company sponsors a defined contribution 401(k) retirement plan (the "401(k) Plan") covering all employees who meet certain age and service requirements. Employees may contribute a percentage of their eligible compensation into the 401(k) Plan, subject to certain limitations imposed by the Internal Revenue Code. Through December 31, 2018, the Company matched employees’ contributions at a rate of 100% of employees’ contributions up to the first 5.0% of the employees’ compensation contributed to the 401(k) Plan. The Company’s matching contributions were $5.2 million, $2.8 million and $2.4 million in 2018, 2017 and 2016, respectively.

15. Stock-Based Compensation

The Company has an Omnibus Incentive and Equity Plan (the "Plan") under which officers, employees and directors may be granted equity-based awards, including restricted stock units ("RSUs"), performance stock units ("PSUs"), stock options and unrestricted shares of common stock. At December 31, 2018, 297,407 shares of common stock remain available for issuance of the 2,400,000 shares that are authorized for issuance under the Plan.
Stock-based compensation expense is summarized as follows:

($ in thousands)	Years Ended December 31, 2018	2017	2016
Stock-based compensation expense	$23,116	$20,288	$11,948

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Restricted Stock Units

Each RSU entitles the holder to one share of common stock when the restriction expires. RSUs generally have a term of one to three years and may be time-vested or performance-contingent (PSUs). The fair value of each RSU is based on the closing market price of the Company's common stock on the date of grant unless it contains a performance metric that is considered a market condition. RSUs that contain a market condition are valued using a simulation valuation model. Shares that are issued upon vesting are newly issued shares from the Plan and are not issued from treasury stock.

RSU activity for the year ended December 31, 2018 is summarized as follows:

	Number of shares	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2017	483,021	$ 104.16
Granted	198,180	$ 131.16
Forfeited	(19,814)	$ 134.65
Settled	(109,149)	$ 114.28
Outstanding at December 31, 2018	552,238	$ 111.49

The grant-date intrinsic value of RSUs granted during the year ended December 31, 2018 was $26.0 million. The weighted-average grant-date fair value of RSUs granted during the years ended December 31, 2018, 2017 and 2016 was $131.16, $108.32 and $80.33 per share, respectively. The total fair value of RSUs vested during the years ended December 31, 2018, 2017 and 2016 was $12.5 million, $11.3 million and $9.3 million, respectively. For the years ended December 31, 2018, 2017 and 2016, a total of 41,101, 32,716 and 37,488 RSUs, respectively, were withheld through net share settlement by the Company to settle minimum employee tax withholding obligations. The Company paid $5.3 million, $3.5 million and $1.5 million for the years ended December 31, 2018, 2017 and 2016, respectively, in minimum employee tax withholding obligations related to RSUs withheld. These net share settlements had the effect of share repurchases by the Company as they reduced the number of shares that would have been otherwise issued as a result of the vesting.

As of December 31, 2018 and 2017, unamortized stock-based compensation expense for outstanding RSUs was $32.2 million and $29.3 million with a weighted average remaining contractual life of 1.5 years and 1.6 years, respectively. The Company did not capitalize any stock-based compensation expenses during the years ended December 31, 2018, 2017 and 2016.

During the years ended December 31, 2018 and 2017, the Company granted 68,803 and 122,606 PSUs, which contain performance-based metrics in addition to a service condition. Compensation expense for these PSUs is generally recognized over a three-year service period based upon the value determined using a combination of the intrinsic value method, for awards that contain a performance metric that represents a "performance condition" in accordance with ASC 718, and the Monte Carlo simulation valuation model, for awards under the performance metric that represents a "market condition" under ASC 718. Compensation expense for the awards that contain a market condition is fixed at the date of grant and will not be adjusted in future periods based upon the achievement of the market condition. Compensation expense for the awards with a performance condition is recorded each period based upon a probability assessment of the expected outcome of the performance metric with a final adjustment upon the final outcome. For the years ended December 31, 2018 and 2017, total stock-based compensation expense included $8.2 million and $7.8 million respectively, for PSUs. As of December 31, 2018 and 2017, unamortized stock-based compensation expense related to PSUs was $11.4 million and $10.9 million, respectively.

Stock Options

Stock option activity for the year ended December 31, 2018 is summarized as follows:

	Number of shares	Weighted Average Exercise Price
Outstanding at December 31, 2017	109,808	$ 16.44
Exercised	(33,057)	$ 24.74
Outstanding at December 31, 2018	76,751	$ 12.86
Vested and exercisable at December 31, 2018	76,751	$ 12.86

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Notes to Consolidated Financial Statements—(Continued)

Stock options generally cliff vest after three years and have a contractual life of ten years. Stock options are granted with an exercise price equal to the fair market value of the shares at the date of grant. The weighted-average remaining contractual term for stock options outstanding at December 31, 2018 and December 31, 2017 was 0.5 and 1.2 years, respectively. The weighted-average remaining contractual term for stock options vested and exercisable at December 31, 2018 was 0.5 years. At December 31, 2018, the aggregate intrinsic value of stock options outstanding and vested and exercisable was $5.1 million. There were no unvested stock options at December 31, 2018. The total intrinsic value of stock options exercised for the years ended December 31, 2018, 2017 and 2016 was $3.0 million, $2.5 million and $1.3 million, respectively. Cash received from stock option exercises was $0.8 million, $0.1 million and $0.5 million for 2018, 2017 and 2016, respectively.

Employee Stock Purchase Plan

The Company offers an employee stock purchase plan that allows employees to purchase shares of common stock on the open market at market price through after-tax payroll deductions. The initial transaction fees are paid for by the Company and shares of common stock are purchased on a quarterly basis. The Company does not reserve shares for this plan or discount the purchase price of the shares.

16. Earnings (Loss) Per Share

The computation of basic and diluted earnings (loss) per share is as follows:

	Years Ended December 31,		
($ in thousands, except per share amounts)	2018	2017	2016
Net Income (Loss)	$76,080	$39,939	$48,763
Noncontrolling interests	(551)	(2,927)	(261)
Net Income (Loss) Attributable to Stockholders	75,529	37,012	48,502
Preferred stock dividends	(8,337)	(8,336)	—
Net Income (Loss) Attributable to Common Stockholders	$67,192	$28,676	$48,502
Shares (in thousands):			
Basic: Weighted-average number of shares outstanding	7,174	7,013	7,648
Plus: Incremental shares from assumed conversion of dilutive instruments	1,353	234	174
Diluted: Weighted-average number of shares outstanding	8,527	7,247	7,822
Earnings (Loss) per Share—Basic	$9.37	$4.09	$6.34
Earnings (Loss) per Share—Diluted	$8.86	$3.96	$6.20

The following table details the securities that have been excluded from the above computation of weighted-average number of shares for diluted EPS, because the effect would be anti-dilutive.

	Years Ended Years Ended December 31,		
(In thousands)	2018	2017	2016
Restricted stock units and stock options	12	—	8
Preferred stock	—	897	—
Total anti-dilutive securities	12	897	8

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Notes to Consolidated Financial Statements—(Continued)

17. Concentration of Credit Risk

The concentration of credit risk with respect to advisory fees receivable is generally limited due to the short payment terms extended to clients by the Company. The following funds provided 10 percent or more of the total revenues of the Company:

($ in thousands)	Years Ended December 31, 2018	2017	2016
Virtus Vontobel Emerging Markets Opportunities Fund			
Investment management, administration and shareholder service fees	$52,548	$48,826	$49,085
Percent of total revenues	10 %	12 %	15 %
Virtus Newfleet Multi-Sector Short Term Bond Fund			
Investment management, administration and shareholder service fees	$54,257	$44,577	$43,579
Percent of total revenues	10 %	11 %	14 %

18. Redeemable Noncontrolling Interests

Redeemable noncontrolling interests for the year ended December 31, 2018 included the following amounts:

($ in thousands)	Consolidated Investment Products	Affiliate Noncontrolling Interests	Total
Balance at December 31, 2017	$ 4,178	$ —	$4,178
Business acquisition	—	55,500	55,500
Net income (loss) attributable to noncontrolling interests	(472)	987	515
Net subscriptions (redemptions) (distributions) and other	(1,322)	(1,390)	(2,712)
Balance at December 31, 2018	$ 2,384	$ 55,097	$57,481

19. Consolidation

The consolidated financial statements include the accounts of the Company, its subsidiaries and investment products that are consolidated. Voting interest entities ("VOEs") are consolidated when the Company is considered to have a controlling financial interest, which is typically present when the Company owns a majority of the voting interest in an entity or otherwise has the power to govern the financial and operating policies of the entity.

The Company evaluates any variable interest entities ("VIEs") in which the Company has a variable interest for consolidation. A VIE is an entity in which either: (a) the equity investment at risk is not sufficient to permit the entity to finance its own activities without additional financial support; or (b) where as a group, the holders of the equity investment at risk do not possess: (i) the power through voting or similar rights to direct the activities that most significantly impact the entity’s economic performance, (ii) the obligation to absorb expected losses or the right to receive expected residual returns of the entity or (iii) proportionate voting and economic interests and where substantially all of the entity’s activities either involve or are conducted on behalf of an investor with disproportionately fewer voting rights. If an entity has any of these characteristics, it is considered a VIE and is required to be consolidated by its primary beneficiary. The primary beneficiary is the entity that has both the power to direct the activities that most significantly impact the VIE’s economic performance and has the obligation to absorb losses of, or the right to receive benefits from, the VIE that could potentially be significant to the VIE.

In the normal course of its business, the Company sponsors various investment products, some of which are consolidated by the Company. Consolidated investment products include both VOEs, made up primarily of open-end funds in which the Company holds a controlling financial interest, and VIEs, which primarily consist of collateralized loan obligations ("CLOs")

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Notes to Consolidated Financial Statements—(Continued)

of which the Company is considered the primary beneficiary. The consolidation and deconsolidation of these investment products have no impact on net income (loss) attributable to stockholders. The Company’s risk with respect to these investment products is limited to its beneficial interests in these products. The Company has no right to the benefits from, and does not bear the risks associated with, these investment products beyond the Company’s investments in, and fees generated from, these products.
The following table presents the balances of the consolidated investment products that, after intercompany eliminations, are reflected in the Consolidated Balance Sheets as of December 31, 2018 and 2017:

	As of December 31,					
	2018			2017		
		VIEs			VIEs	
($ in thousands)	VOEs	CLOs	Other	VOEs	CLOs	Other
Cash and cash equivalents	$1,029	$51,363	$559	$820	$82,823	$18,489
Investments	12,923	1,709,266	27,379	34,623	1,555,879	7,250
Other assets	228	30,426	403	767	32,671	48
Notes payable	—	(1,620,260)	—	—	(1,457,435)	—
Securities purchased payable and other liabilities	(823)	(69,737)	(146)	(1,319)	(110,871)	(764)
Noncontrolling interests	(2,348)	(13,958)	(36)	(4,178)	(16,667)	$—
The Company’s net interests in consolidated investment products	$11,009	$87,100	$28,159	$30,713	$86,400	$25,023

Consolidated CLOs

The majority of the Company's consolidated investment products that are VIEs are CLOs. At December 31, 2018, the Company consolidated five CLOs including one CLO currently in warehouse-stage. The financial information of certain CLOs is included in the Company's consolidated financial statements on a one-month lag based upon the availability of financial information. Majority-owned consolidated private funds, whose primary purpose is to invest in CLOs for which the Company serves as the collateral manager, are also included.

Investments of CLOs

The CLOs' investments of $1.7 billion at December 31, 2018 represent bank loan investments, which comprise the majority of the CLOs' portfolio asset collateral and are senior secured corporate loans across a variety of industries. These bank loan investments mature at various dates between 2019 and 2026 and pay interest at LIBOR plus a spread of up to 8.75%. At December 31, 2018, the fair value of the bank loan investments exceeded the unpaid principal balance by approximately $49.7 million. At December 31, 2018, there were no material collateral assets in default.

Notes Payable of CLOs

The CLOs hold notes payable with a total value, at par, of $1.8 billion, consisting of senior secured floating rate notes payable with a par value of $1.4 billion, warehouse facility debt of $155.7 million and subordinated notes with a par value of $179.8 million. These note obligations bear interest at variable rates based on LIBOR plus a pre-defined spread ranging from 0.8% to 7.0%. The principal amounts outstanding of the note obligations issued by the CLOs mature on dates ranging from October 2027 to January 2029. The CLOs may elect to reinvest any prepayments received on bank loan investments between October 2019 and October 2021, depending on the CLO. Generally, subsequent prepayments received after the reinvestment period must be used to pay down the note obligations.

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Notes to Consolidated Financial Statements—(Continued)

The Company’s beneficial interests and maximum exposure to loss related to these consolidated CLOs is limited to: (i) ownership in the subordinated notes and (ii) accrued management fees. The secured notes of the consolidated CLOs have contractual recourse only to the related assets of the CLO and are classified as financial liabilities. Although these beneficial interests are eliminated upon consolidation, the application of the measurement alternative prescribed by ASU 2014-13, results in the net assets of the consolidated CLOs shown above to be equivalent to the beneficial interests retained by the Company at December 31, 2018, as shown in the table below:

($ in thousands)	
Subordinated notes	$86,011
Accrued investment management fees	1,089
Total Beneficial Interests	$87,100

The following table represents income and expenses of the consolidated CLOs included in the Company's Consolidated Statements of Operations for the period indicated:

($ in thousands)	Year Ended December 31, 2018
Income:	
Realized and unrealized gain (loss), net	$ (16,202)
Interest income	96,666
Total Income	$ 80,464
Expenses:	
Other operating expenses	$ 2,547
Interest expense	64,788
Total Expense	67,335
Noncontrolling interest	(37)
Net Income (loss) attributable to CIPs	$ 13,092

As summarized in the table below, the application of the measurement alternative as prescribed by ASU 2014-13 results in the consolidated net income summarized above to be equivalent to the Company’s own economic interests in the consolidated CLOs, which are eliminated upon consolidation:

($ in thousands)	Year Ended December 31, 2018
Distributions received and unrealized gains (losses) on the subordinated notes held by the Company	$ 5,763
Investment management fees	7,329
Total Economic Interests	$ 13,092

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Notes to Consolidated Financial Statements—(Continued)

Fair Value Measurements of Consolidated Investment Products

The assets and liabilities of the consolidated investment products measured at fair value on a recurring basis by fair value hierarchy level were as follows:

As of December 31, 2018

($ in thousands)	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$51,363	$—	$—	$51,363
Debt investments	5,306	1,724,714	6,848	1,736,868
Equity investments	12,700	—	—	12,700
Total assets measured at fair value	$69,369	$1,724,714	$6,848	$1,800,931
Liabilities				
Notes payable	$—	$1,620,260	$—	$1,620,260
Short sales	707	—	—	707
Total liabilities measured at fair value	$707	$1,620,260	$—	$1,620,967

As of December 31, 2017

($ in thousands)	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$82,769	$—	$—	$82,769
Debt investments	—	1,527,845	33,887	1,561,732
Equity investments	35,126	—	894	36,020
Total assets measured at fair value	$117,895	$1,527,845	$34,781	$1,680,521
Liabilities				
Notes payable	$—	$1,457,435	$—	$1,457,435
Derivatives	2	—	—	2
Short sales	719	—	—	719
Total liabilities measured at fair value	$721	$1,457,435	$—	$1,458,156

The following is a discussion of the valuation methodologies used for the assets and liabilities of the Company's consolidated investment products measured at fair value.

Cash equivalents represent investments in money market funds. Cash investments in actively traded money market funds are valued using published net asset values and are classified as Level 1.

Debt and equity investments represent the underlying debt, equity and other securities held in consolidated investment products. Equity investments are valued at the official closing price on the exchange on which the securities are traded and are generally categorized within Level 1. Level 2 investments represent most debt securities, including bank loans and certain equity securities (including non-US securities), for which closing prices are not readily available or are deemed to not reflect readily available market prices, and are valued using an independent pricing service. Debt investments are valued based on quotations received from independent pricing services or from dealers who make markets in such securities. Bank loan investments, which are included as debt investments are generally priced at the average mid-point of bid and ask quotations obtained from a third-party pricing service. Fair value may also be based upon valuations obtained from independent third-party brokers or dealers utilizing matrix pricing models that consider information regarding securities with similar characteristics. In certain instances, fair value has been determined utilizing discounted cash flow analyses or single broker non-binding quotes. Depending on the nature of the inputs, these assets are classified as Level 1, 2 or 3 within the fair value measurement hierarchy. Level 3 investments include debt securities that are not widely traded, are illiquid, or are priced by dealers based on pricing models used by market makers in the security.

Notes to Consolidated Financial Statements—(Continued)

For the years ended 2018 and 2017, no securities held by consolidated investment products were transferred from Level 2 to Level 1 and no securities held by consolidated investment products were transferred from Level 1 to Level 2.

Notes payable represent notes issued by consolidated investments products that are CLOs and are measured using the measurement alternative in ASU 2014-13. Accordingly, the fair value of CLO liabilities was measured as the fair value of CLO assets less the sum of: (a) the fair value of the beneficial interests held by the Company and (b) the carrying value of any beneficial interests that represent compensation for services. The fair value of the beneficial interests held by the Company is based on third-party pricing information without adjustment.

The securities purchase payable at December 31, 2018 and 2017 approximated fair value due to the short term nature of the instruments.

The following table is a reconciliation of assets and liabilities of consolidated investment products for Level 3 investments for which significant unobservable inputs were used to determine fair value.

	Year Ended December 31,	
($ in thousands)	2018	2017
Level 3 Securities (a)		
Balance at Balance at beginning of period	$34,781	$25
Purchases	7,122	3,174
Sales	(13,895)	(3,357)
Paydowns	—	—
Amortization	19	9
Change in unrealized gains (losses), net	1,993	434
Realized gains (loss), net	562	(49)
Acquired in business combination	—	9,151
Transfers to Level 2	(33,873)	(35,258)
Transfers from Level 2	10,139	60,652
Balance at end of period	$6,848	$34,781

(a) The investments that are categorized as Level 3 were valued utilizing third-party pricing information without adjustment. All transfers are deemed to occur at the end of period. Transfers between Level 2 and Level 3 were due to a decrease in trading activities at period end.

For the years ended December 31, 2018 and December 31, 2017, respectively, there were no securities held by consolidated investment products that transferred between Level 1 and Level 2.

Nonconsolidated VIEs

The Company serves as the collateral manager for other collateralized loan and collateralized bond obligations (collectively, "CDOs") that are not consolidated. The assets and liabilities of these CDOs reside in bankruptcy remote, special purpose entities in which the Company has no ownership, nor holds any notes issued by, the CDOs, and provides neither recourse nor guarantees. The Company has determined that the investment management fees it receives for serving as collateral manager for these CDOs did not represent a variable interest as: (1) the fees the Company earns are compensation for services provided and are commensurate with the level of effort required to provide the investment management services; (2) the Company does not hold other interests in the CDOs that individually, or in the aggregate, would absorb more than an insignificant amount of the CDO's expected losses or receive more than an insignificant amount of the CDO's expected residual return; and (3) the investment management arrangement only includes terms, conditions and amounts that are customarily present in arrangements for similar services negotiated at arm's length.

The Company has interests in certain other entities that are VIEs that the Company does not consolidate as it is not the primary beneficiary of those entities. The Company is not the primary beneficiary as its interest in these entities does not provide the Company with the power to direct the activities that most significantly impact the entities' economic performance. At December 31, 2018, the carrying value and maximum risk of loss related to the Company's interest in these VIEs was $16.4 million.

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Notes to Consolidated Financial Statements—(Continued)

20. Subsequent Events

Dividends Declared

On February 21, 2019, the Company declared a quarterly cash dividend of $0.55 per common share to be paid on May 15, 2019 to shareholders of record at the close of business on April 30, 2019. The Company also declared a quarterly cash dividend of $1.8125 per share on the Company's 7.25% mandatory convertible preferred stock to be paid on May 1, 2019 to shareholders of record at the close of business on April 15, 2019.

21. Selected Quarterly Data (Unaudited)

($ in thousands, except per share data)	2018 Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Revenues	$138,065	$152,210	$132,932	$129,028
Operating Income (Loss)	29,228	33,946	27,308	22,617
Net Income (Loss)	1,093	27,931	23,229	23,827
Net Income (Loss) Attributable to Common Stockholders	77	24,913	20,986	21,216
Earnings (loss) per share—Basic	$0.01	$3.47	$2.91	$2.95
Earnings (loss) per share—Diluted	$0.01	$3.19	$2.75	$2.77

($ in thousands, except per share data)	2017 Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Revenues	$128,024	$123,675	$94,132	$79,776
Operating Income (Loss)	28,015	16,789	3,184	10,047
Net Income (Loss)	5,643	20,523	28	13,745
Net Income (Loss) Attributable to Common Stockholders	3,414	16,708	(2,389)	10,943
Earnings (loss) per share—Basic	$0.48	$2.32	$(0.34)	$1.67
Earnings (loss) per share—Diluted	$0.46	$2.21	$(0.34)	$1.62