

WisdomTree Investments, Inc.  
Form 10-K/A  
August 08, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-K/A**

**Amendment No. 2**

(Mark One)

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

For fiscal year ended December 31, 2012

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 001-10932

**WisdomTree Investments, Inc.**

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(Exact name of registrant as specified in its charter)

<b>Delaware</b> (State or other jurisdiction of incorporation or organization) <b>380 Madison Avenue, 21<sup>st</sup> Floor</b>	<b>13-3487784</b> (IRS Employer Identification No.)
<b>New York, New York</b> (Address of principal executive officers)	<b>10017</b> (Zip Code)

**212-801-2080**  
(Registrant's Telephone Number, Including Area Code)

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of each class:</b> Common Stock, \$0.01 par value	<b>Name of each exchange on which registered:</b> The NASDAQ Stock Market LLC
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**Securities registered pursuant to Section 12(g) of the Act:**

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes  No

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  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

At June 30, 2012, the aggregate market value of the registrant's Common Stock held by non-affiliates (computed by reference to the price at which the Common Stock was last sold on the NASDAQ Global Market on June 30, 2012) was \$446,355,000.

At July 31, 2013, there were 128,099,292 shares of the registrant's Common Stock outstanding (voting shares).

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**Explanatory Note**

This Form 10-K/A Amendment No. 2 to the Annual Report on Form 10-K for the year ended December 31, 2012, as originally filed on March 15, 2013, and amended on April 26, 2013 (together, the Original Filing ) of WisdomTree Investments, Inc. is being filed for the sole purpose of refiling certain exhibits thereto as required by certain Rules under Regulation S-K as follows:

Item 15. Exhibits, Financial Statement Schedules

(b). Exhibits

Exhibit 31.1 Rule 13a-14(a) / 15d-14(a) Certifications

Exhibit 31.2 Rule 13a-14(a) / 15d-14(a) Certifications

Except as expressly noted herein, this Form 10-K/A Amendment No. 2 does not modify or update in any way disclosures made in the Original Filing. The Original Filing continues to speak as of the date of the Original Filing, and we have not updated the disclosures contained therein to reflect any events that occurred at a date subsequent to the filing of the Original Filing other than expressly indicated in this Form 10-K/A and this amendment does not reflect events occurring after the filing of the Original Filing. Accordingly, this Form 10-K/A Amendment No. 2 should be read in conjunction with the Original Filing and our other filings made with the SEC on or subsequent to March 15, 2013.

Unless the context requires otherwise, references to WisdomTree, the Company, we, our, us or like terms refer to WisdomTree Investments, and its subsidiaries.

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**WISDOMTREE INVESTMENTS, INC.**

**Form 10-K**

**For the Fiscal Year Ended December 31, 2012**

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Annual Report on Form 10-K contains forward-looking statements that are based on our management's belief and assumptions and on information currently available to our management. Although we believe that the expectations reflected in these forward-looking statements are reasonable, these statements relate to future events or our future financial performance, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

In some cases, you can identify forward-looking statements by terminology such as may, will, should, expects, intends, plans, anticipate, believes, estimates, predicts, potential, continue or the negative of these terms or other comparable terminology. These statements are only predictions. You should not place undue reliance on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which are, in some cases, beyond our control and which could materially affect results. Factors that may cause actual results to differ materially from current expectations include, among other things, those listed in the section entitled "Risk Factors" and elsewhere in this Report. If one or more of these risks or uncertainties occur, or if our underlying assumptions prove to be incorrect, actual events or results may vary significantly from those implied or projected by the forward-looking statements. No forward-looking statement is a guarantee of future performance. You should read this Report and the documents that we reference in this Report and have filed with the Securities and Exchange Commission as exhibits to this Report, completely and with the understanding that our actual future results may be materially different from any future results expressed or implied by these forward-looking statements.

In particular, forward-looking statements in this Report include statements about:

anticipated trends, conditions and investor sentiment in the global markets;

anticipated levels of inflows into and outflows out of our exchange traded funds ( ETFs );

our ability to deliver favorable rates of return to investors;

our ability to develop new products and services;

our ability to maintain current vendors or find new vendors to provide services to us at favorable costs;

competition in our business; and

the effect of laws and regulations that apply to our business.

The forward-looking statements in this Report represent our views as of the date of this Report. We anticipate that subsequent events and developments may cause our views to change. However, while we may elect to update these forward-looking statements at some point in the future, we have no current intention of doing so except to the extent required by applicable law. Therefore, these forward-looking statements do not represent our views as of any date other than the date of this Report.

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**PART I**

**ITEM 1. BUSINESS**

**Our Company**

We are the only publicly-traded asset management company that focuses exclusively on ETFs. We are the seventh largest ETF sponsor in the United States with assets under management, ( AUM ) of approximately \$18.3 billion as of December 31, 2012. Our family of ETFs includes both fundamentally weighted funds that track our own indexes, and actively managed funds. We distribute our ETFs through all major channels within the asset management industry, including brokerage firms, registered investment advisors, institutional investors, private wealth managers and discount brokers.

We focus on creating ETFs for investors that offer thoughtful innovation, smart engineering and refined investing. We believe that our differentiated approach, employing a distinctive index-based methodology, delivers better risk adjusted returns over the long term. Our index-based funds employ a fundamental weighted investment methodology, which weights securities on the basis of factors such as dividends or earnings, whereas most other ETF indexes use a capitalization weighted methodology. Using our approach, 72% of the \$15.4 billion invested in our 34 equity ETFs were in funds that, since their respective inception through December 31, 2012, outperformed their market capitalization weighted or competitive benchmarks. Similarly, 23 of our 34 equity ETFs have outperformed their market capitalization weighted or competitive benchmarks over the same period. In addition, we also offer actively managed ETFs, which are ETFs that are not based on a particular index but rather are actively managed with complete transparency into the ETF's portfolio on a daily basis. Our exemptive relief enables us to use our own indexes for certain of our ETFs and actively manage other ETFs.

Despite a challenging economic environment, our AUM has been growing and reaching record levels each year from \$9.9 billion at the end of 2010 to \$18.3 billion at the end of 2012. Our net inflows have also been increasing during that same time period from \$3.1 billion to \$4.7 billion. As a result of strong net inflows and growth in our AUM, our revenues have increased from \$41.6 million in 2010 to \$84.8 million in 2012 which has helped improve our profitability from a net loss of \$7.5 million in 2010 to net income of \$11.0 million in 2012.

The following charts show our AUM, net inflows, revenues and net income/(loss) for the periods indicated:

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The following charts reflect the asset mix and distribution of our ETFs as of December 31, 2012:

**Our Industry**

An ETF is an investment fund that holds securities such as equities or bonds and/or other assets such as derivatives or commodities, and that generally trades at approximately the same price as the net asset value of its underlying components over the course of the trading day. ETFs offer exposure to a wide variety of asset classes and investment themes, including domestic, international and global equities, fixed income securities, as well as securities in specific industries and countries. There are also ETFs that track certain specific investments, such as commodities, real estate or currencies.



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We believe ETFs have been one of the most innovative, revolutionary and disruptive investment products to emerge in the last two decades in the asset management industry. As of December 31, 2012, there were approximately 1,200 ETFs in the United States with aggregate AUM of \$1.3 trillion. McKinsey & Company and Strategic Insights project the global aggregate AUM of ETFs could grow by \$1.5 trillion by 2015, and Strategic Insights predicts the U.S. ETF market will hit \$2 trillion before the end of 2015. The chart below reflects the AUM of the ETF industry in the United States since 2000:

**U.S ETF Industry AUM****(in billions)**

Source: Investment Company Institute, Bloomberg, WisdomTree.

As of December 31, 2012, we were the seventh largest ETF sponsor in the United States by AUM and had the second highest percentage growth rate in AUM of the top ten ETF sponsors at the end of 2012:

		AUM as of December 31, 2012 (in billions)	2012 % Organic Growth in AUM
1	iShares	\$ 558.0	14%
2	StateStreet	329.2	14%
3	Vanguard	244.4	31%
4	PowerShares	58.6	16%
5	Van Eck	27.6	19%
6	ProShares	21.1	5%
<b>7</b>	<b>WisdomTree</b>	<b>18.3</b>	<b>39%</b>
8	Guggenheim	12.4	(3%)
9	Deutsche Bank	11.7	7%
10	PIMCO	9.1	122%
	Top Ten Total	1,290	
	Other ETF Sponsors	42	
	Total U.S. ETF Industry AUM	\$ 1,333	

Source: Bloomberg, WisdomTree

According to Morningstar, Inc., ETFs were initially marketed primarily to institutional investors. However, today, institutional investors account for only about half of the assets held in ETFs. ETFs have become more popular among a broad range of investors as they have come to realize their benefits and use them for a variety of

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purposes and strategies, including low cost index investing and asset allocation, access to specific asset classes, protective hedging, income generation, exploitation of arbitrage opportunities, and diversification strategies.

While ETFs are similar to mutual funds in many respects, they have some important differences as well:

**Transparency.** ETFs disclose the composition of their underlying portfolios on a daily basis, unlike mutual funds which typically disclose their holdings only every 90 days.

**Intraday trading, hedging strategies and complex orders.** Like stocks, ETFs can be bought and sold on exchanges throughout the trading day at market prices. ETFs update the indicative values of their underlying portfolios every 15 seconds. As publicly-traded securities, ETF shares can be purchased on margin and sold short, enabling the use of hedging strategies, and traded using stop orders and limit orders, which allow investors to specify the price points at which they are willing to trade.

**Tax efficiency.** In the United States, whenever a mutual fund or ETF realizes a capital gain that is not balanced by a realized loss, it must distribute the capital gain to its shareholders. These gains are taxable to all shareholders, even those who reinvest the gain distributions in additional shares of the fund. However, most ETFs typically redeem their shares through in-kind redemptions in which low-cost securities are transferred out of the ETF in exchange for fund shares in a non-taxable transaction. As a practical matter, mutual funds cannot use this process. By using this process, ETFs avoid the transaction fees and tax impact incurred by mutual funds that sell securities to generate cash to pay out redemptions.

**Uniform pricing.** From a cost perspective, ETFs are one of the most equitable investment products on the market. Investors, regardless of their size, structure or sophistication, pay identical advisory fees. Unlike mutual funds, there are not different share classes or different expense structures for retail and institutional clients and ETFs are not sold with sales loads or 12b-1 fees. In many cases, ETFs offer lower expense ratios than comparable mutual funds.

ETFs are used in various ways by a range of investors, from conservative to speculative uses including:

**Low cost index investing.** Because of their low cost, ETFs are used by investors seeking to track a variety of indexes encompassing equities, commodities or fixed income over the short and long term.

**Improved access to specific asset classes.** Investors often use ETFs to gain access to specific market sectors or regions around the world by using an ETF that holds a portfolio of securities in that region or segment rather than buying individual securities.

**Protective hedging.** Investors seeking to protect their portfolios may use ETFs as a hedge against unexpected declines in prices.

**Income generation.** Investors seeking to obtain income from their portfolios may buy dividend-paying ETFs, which encompass a basket of dividend-paying stocks rather than buying individual stocks or a fixed income ETF that typically distributes monthly income.

**Speculative investing.** Investors with a specific directional opinion about a market sector may choose to buy or sell (long or short) an ETF covering or leveraging that market sector.

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**Arbitrage.** Sophisticated investors may use ETFs in order to exploit perceived value differences between the ETF and the value of the ETF's underlying portfolio of securities.

**Asset allocation.** Investors seeking to invest in various asset classes to develop an asset allocation model in a cost-effective manner can do so easily with ETFs, which offer broad exposure to various asset classes in a single security.

**Diversification.** By definition, ETFs represent a basket of securities and each fund may contain hundreds or even thousands of different individual securities. The instant diversification of ETFs provides investors with broad exposure to an asset class, market sector or geography.

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ETFs are one of the fastest growing sectors of the asset management industry, having expanded at a compound annual growth rate of 29% from \$66 billion in AUM in 2000 to \$1.3 trillion in AUM at the end of 2012. According to the Investment Company Institute, since 2007, ETFs have generated approximately 50% of the total inflows into ETFs and long-term mutual funds. However, ETFs have generated positive inflows into equity funds of approximately \$650 billion and long-term equity mutual funds have experienced outflows of approximately \$450 billion. We believe this trend is due to the inherent superior benefits of ETFs, that is: transparency, liquidity and tax efficiency.

We believe our growth, and the growth of the ETF industry in general, will continue to be driven by the following factors:

***Education and greater investor awareness.*** Over the last several years, ETFs have been taking a greater share of inflows and AUM from mutual funds. We believe as a result of the recent market downturns, investors have become more aware of some of the deficiencies of their mutual fund and other financial products. In particular, we believe investors are beginning to focus on important characteristics of their traditional investments—namely transparency, tradability, liquidity, tax efficiency and fees. Their attention and education focused on these important investment characteristics may be one of the drivers of the shift in inflows from traditional mutual funds to ETFs. We believe as investors become more aware and educated about ETFs and their benefits, ETFs will continue to take market share from traditional mutual funds and other financial products or structures such as hedge funds, separate accounts and single stocks.

***Move to fee-based models.*** Over the last several years, many financial advisors have changed the revenue model that they charge clients from one that is transaction-based, that is, based on commissions for trades or receiving sales loads, to a fee-based approach, where an overall fee is charged based on the value of AUM. This fee-based approach lends itself to the advisor selecting no-load, lower-fee financial products, and in our opinion, better aligns advisors with the interests of their clients. Since ETFs generally charge lower fees than mutual funds, we believe this model shift will benefit the ETF industry. As major brokerage firms and asset managers encourage their advisors to move towards fee-based models, we believe overall usage of ETFs will likely increase.

***Innovative product offerings.*** Historically, ETFs tracked traditional equity indexes, but the volume of ETF growth has led to significant innovation and product development. As demand increased, the number of ETFs has also increased and today, ETFs are available for virtually every asset class including commodities, fixed income, alternative strategies, leveraged/inverse, real estate and currencies. We believe, though, that there remain substantial areas for ETF sponsors to continue to innovate, including alternative-based strategies, hard and soft commodities, and actively-managed strategies. We believe the further expansion of ETFs will fuel further growth and investments from investors who typically access these products through hedge funds, separate accounts, stock investments or the futures and commodity markets.

***New distribution channels.*** Discount brokers, including E\*Trade, TD Ameritrade, Schwab and Fidelity, now offer free trading and promotion of select ETFs. We believe the promotion of ETF trading by discount brokers and their marketing of ETFs to a wider retail channel will contribute to the future growth of ETFs.

***Changing demographics.*** As the baby boomer generation continues to mature and retire, we expect that there will be a greater demand for a broad range of investment solutions, with a particular emphasis on income generation and principal protection, and that more of these investors will seek advice from professional financial advisors. We believe these financial advisors will migrate more of their clients' portfolios to ETFs due to their lower fees, better fit within fee-based models, and their ability to (i) provide access to more diverse market sectors, (ii) improve multi-asset class allocation, and (iii) be used for different investment strategies, including income generation. Overall, we believe ETFs are well-suited to meet the needs of this large and important group of investors.

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***Expansion into 401(k) retirement plans.*** Historically, 401(k) plans were almost exclusively comprised of mutual funds. However, we believe ETFs are particularly well-suited to 401(k) retirement plans and that these plans present a large and growing opportunity for our industry. ETFs are easy-to-implement, fully transparent investment vehicles covering the full range of asset allocation categories, and are available at significantly lower costs than most traditional mutual funds. In addition, regulatory reform laws which recently went into effect require 401(k) retirement plan sponsors to disclose all fees associated with their plans. While it may take several years for the fee disclosures to be fully analyzed and understood by plan sponsors and their participants, we believe that as investors become aware of fees associated with using mutual funds in traditional 401(k) retirement plans, they will replace higher fee mutual funds with ETFs because of their lower fees.

### **Our Competitive Strengths**

***Well-positioned in large and growing markets.*** We believe that ETFs are well-positioned to grow significantly faster than the asset management industry as a whole, making our concentration in ETFs a significant advantage versus other traditional asset management firms. In 2010, 2011 and 2012, our AUM grew among the fastest rate of the top 10 ETF sponsors and at December 31, 2012 we are the seventh largest ETF sponsor in the United States by AUM. Within the ETF industry, being a first mover, or one of the first providers of ETFs in a particular asset class, can be a significant advantage. We believe that our early leadership in a number of asset classes positions us well to maintain a leadership position.

***Strong performance through a differentiated approach.*** We create our own indexes, rebalanced annually, that weight companies in our equity ETFs by a measure of fundamental value. In contrast, traditional indexes are market capitalization weighted and tend to track the momentum of the market. Using our approach, 72% of the \$15.4 billion invested in our 34 equity ETFs were in funds that, since their respective inception through December 31, 2012, outperformed their market capitalization weighted or competitive benchmarks. Similarly, 23 of our 34 equity ETFs have outperformed their market capitalization weighted or competitive benchmarks over the same period. In addition, we also offer actively managed ETFs, which are ETFs that are not based on a particular index but rather are actively managed with complete transparency into the ETF's portfolio on a daily basis. We believe our approach differentiates us from our competitors and will allow us to take a greater share of the expected growth in the ETF market.

***Diversified product set, powered by innovation.*** We have a broad and diverse product set. Our products span a variety of traditional and high growth asset classes, including emerging markets, international and U.S. equities, currencies, international fixed income, and alternatives, and include both passive and actively managed funds. Our product development, research and sales teams work closely to identify potential new ETFs for the marketplace. Because we have the regulatory exemptive relief that enables us to use our own indexes for our ETFs, we have the ability to create certain indexes and related ETFs more rapidly than many of our competitors who must license indexes from third party index providers. Our exemptive relief also enables us to offer actively managed funds. Our innovations include launching the industry's first emerging markets small cap equity ETF, the first actively managed currency ETFs, one of the first international local currency denominated fixed income ETFs and the first managed futures strategy ETF. We believe that our expertise in product development combined with our regulatory exemptive relief provides a strategic advantage, enabling us to launch innovative ETFs that others may not be able to launch as quickly.

***Extensive marketing, research and sales efforts.*** We have invested significant resources to establish the WisdomTree brand through targeted television, print and online advertising, social media, as well as through our public relations efforts. The majority of our employees are dedicated to marketing, research and sales. Our sales professionals are the primary points of contact for financial advisors who use our ETFs. Their efforts are enhanced through value-added services provided by our research and marketing efforts. We have strong relationships with financial advisors at leading national brokerage

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firms, registered investment advisors and high net worth advisors. We believe the recent growth we have experienced by strategically aligning these advisor relationships and marketing campaigns with targeted research and sales initiatives differentiates us from our competitors and contributes to our strong inflows.

***Efficient business model with lower risk profile.*** We have invested heavily in the internal development of our core competencies with respect to product development, marketing, research and sales of ETFs. We outsource to third parties those services that are not our core competencies or may be resource or risk intensive, such as the portfolio management responsibilities and fund accounting operations of our ETFs. In addition, since we create our own indexes, we do not incur licensing costs and can therefore be more competitive in terms of the fees we charge for our index-based ETFs. We have already made substantial investments in our core competencies, and we expect to be able to leverage these existing capabilities across our business, positioning us to maintain both growth and profitability.

***Strong, seasoned and creative management team.*** We have built a strong and dedicated senior leadership team. Most of our leadership team has significant ETF or financial services industry experience in fund operations, regulatory and compliance oversight, product development and management or marketing and communications. We believe our team, by developing an ETF sponsor from the ground up despite significant competitive, regulatory and operational barriers, has demonstrated an ability to innovate as well as recognize and respond to market opportunities and effectively execute our strategy.

### **Our Growth Strategies**

Our goal is to be among the top five U.S. sponsors in the ETF industry, where scale is a competitive advantage. In 2009, we were the eleventh largest ETF sponsor. We increased our AUM to become the eighth largest ETF sponsor in 2010 and, as of December 31, 2012 we were the seventh largest. We believe our continued execution will enable us to increase trading volumes and build longer performance track records, which should allow us to attract additional investors and, in turn, further grow our AUM. We will seek to increase our market share and build additional scale by continuing to implement the following growth strategies:

***Increase penetration within existing distribution channels.*** We believe there is an opportunity to increase our market share by further penetrating existing distribution channels and by cross-selling additional WisdomTree ETFs. In order to achieve these objectives, we intend to continue our strategy of targeted advertising and direct marketing, coupled with our research-focused sales support initiatives, to enhance product awareness and increase our market share of ETF net inflows. Our share of ETF industry net inflows has fluctuated from 2.7% in 2010, to 3.3% in 2011 and 2.6% in 2012.

***Launch innovative new products that diversify our product offerings and revenues.*** We believe our track record has shown that we can create and sell innovative ETFs that meet market demand. We believe that continued launches of new products will strengthen our business by allowing us to realize additional inflows, maintain and grow our AUM and generate revenues across different market cycles as particular investment strategies move in and out of favor.

***Expand internationally.*** To date, our sales and marketing has been principally focused on the domestic U.S. market. However, since April 2010, 12 of our ETFs have been cross-listed in the special international section on the Mexican stock exchange, Bolsa Mexicana De Valores, where certain institutional investors trade foreign securities in Mexico. As ETFs are increasingly traded globally we believe that international expansion of our marketing, communication and sales strategies will provide significant new growth avenues. We have also established an international Trust to give us the option to capitalize on growth opportunities outside of the United States.

***Selectively pursue acquisitions or partnerships.*** We may pursue acquisitions or enter into partnerships or other commercial arrangements that will enable us to strengthen our current business, expand and diversify our product offering, increase our AUM or enter into new markets. We believe entering into partnerships or pursuing acquisitions is a cost-effective means of growing our business and AUM. For example, in 2007, we purchased certain assets and intellectual property from Treasury Equity, LLC



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which formed the basis for our currency ETFs. In addition, in 2008, we entered into a joint venture with Mellon Capital Management Corporation ( Mellon Capital ) and The Dreyfus Corporation ( Dreyfus ) with respect to our currency and fixed income ETFs, which enabled us to bring these ETFs to market faster than would otherwise have been possible. This joint venture ended at the end of 2012.

**Regulatory Framework of the ETF Industry**

Not all exchange traded products, or ETPs, are ETFs. ETFs are a distinct type of security with features that are different than other ETPs. ETFs are open-end investment companies or unit investment trusts regulated by the Investment Company Act of 1940 ( Investment Company Act ). This regulatory structure is designed to provide investor protection within a pooled investment product. For example, the Investment Company Act requires that at least 40% of the Trustees for each ETF must not be affiliated persons of the fund's investment manager ( Independent Trustees ). If the ETF seeks to rely on certain rules under the Investment Company Act, a majority of the Trustees for that ETF must be Independent Trustees. In addition, as discussed below, ETFs have received orders from the staff of the SEC which exempt them from certain provisions of the Investment Company Act; however, ETFs generally operate under regulations that prohibit affiliated transactions, are subject to standard pricing and valuation rules and have mandated compliance programs. ETPs can take a number of forms other than ETFs, including exchange traded notes, grantor trusts or limited partnerships. A key factor differentiating ETFs, grantor trusts and limited partnerships from exchange traded notes is that the former hold assets underlying the ETP. Exchange traded notes on the other hand are debt instruments issued by the exchange traded note sponsor. Also, each of these structures has implications for taxes, liquidity, tracking error and credit risk.

Because ETFs do not fit into the regulatory provisions governing mutual funds, ETF sponsors need to obtain from the SEC exemptive relief from certain provisions of the Investment Company Act in order to operate ETFs. This exemptive relief allows the ETF sponsor to bring products to market for the specific products or structures they have applied for. Applying for exemptive relief can be costly and take several months to several years depending on the type of exemptive relief sought. See Business Regulation below.

**Our Products**

As of December 31, 2012, we offered a comprehensive family of 46 ETFs, which includes 34 international and domestic equity ETFs, five currency ETFs, five international fixed income ETFs and two alternative ETFs. 43 of our ETFs are listed on NYSE Arca, a listing venue of NYSE Euronext, and three of our ETFs are listed on the NASDAQ Stock Market. Since April 2010, 12 of our ETFs have also been cross-listed on the Mexican stock exchange.

The type and AUM for each of our ETFs as of December 31, 2012:

	Number of Funds	Type	AUM (in billions)
<i>Equity ETFs:</i>			
U.S. Equity ETFs	11	Index based	\$ 4.4
Emerging Markets Equity ETFs	5	Index based	7.3
International Developed Equity ETFs	18	Index based	3.8
<i>Currency ETFs</i>	5	Actively Managed	0.6
<i>International Fixed Income ETFs</i>	5	Actively Managed	2.1
<i>Alternative Strategy ETFs</i>	2	Actively Managed	0.1
Total	46		\$ 18.3

**Equity ETFs**

We offer equity ETFs that offer access to the securities of large, mid and small-cap companies located in the United States, developed markets and emerging markets, as well as particular market sectors, including basic



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materials, energy, utilities and real estate. Our equity ETFs track our own fundamentally weighted indexes, as opposed to market capitalization weighted indexes, which assign more weight to stocks with the highest market capitalizations. These fundamentally weighted indexes focus on securities of companies that pay regular cash dividends or on securities of companies that have generated positive cumulative earnings over a certain period. We believe these factors, rather than market capitalization alone, can provide investors with better risk-adjusted returns over the long term. All of our equity ETFs, with the exception of one, is sub-advised by Mellon Capital, a subsidiary of The Bank of New York Mellon Corporation (BNY Mellon). One of our equity ETFs is sub-advised by Old Mutual Global Index Trackers (Pty) Limited, a subsidiary of Old Mutual PLC.

### ***Currency ETFs***

We launched the industry's first currency ETFs in May 2008 using an actively managed strategy. We offer currency ETFs that provide investors with exposure to developed and emerging market currencies, including the Chinese Yuan and the Brazilian Real. Currency ETFs invest in U.S. money market securities, forward currency contracts and swaps and seek to achieve the total returns reflective of both money market rates in selected countries available to foreign investors and changes to the value of these currencies relative to the U.S. dollar. Our Currency ETFs are sub-advised by Mellon Capital.

### ***International Fixed Income ETFs***

In 2010, we began launching international fixed income ETFs that invest in emerging market countries, Asia Pacific ex-Japan countries or European countries. These ETFs are denominated in either local or U.S. currencies. We intend to launch additional fixed income bond funds and broaden our product offerings in this category. Our fixed income ETFs are sub-advised by either Mellon Capital or Western Asset Management, a subsidiary of Legg Mason.

### ***Alternative Strategy ETFs***

In 2011, we launched the industry's first managed futures strategy ETF and a global real return ETF. We also intend to explore additional alternative strategy products in the future. Our alternative ETFs are sub-advised by Mellon Capital.

### ***Index Based ETFs***

Our equity ETFs seek to track our own fundamentally weighted indexes. Most of today's ETFs track market capitalization weighted indexes and most of these indexes are licensed from third parties by ETF sponsors. Market capitalization weighted ETFs assign more weight to stocks with the highest market capitalizations, which is a function of stock price. We believe this means that if a stock is overvalued, market capitalization weighted funds will give the overvalued stock greater weight as its price and market capitalization increase. The opposite is true if a stock is undervalued, as market capitalization weighted funds will give it less weight. Without a way to rebalance away from these stocks, we believe market capitalization weighted funds essentially hold more of a company's stock as its price is going up and less as the price of the company's stock is going down. In other words, we believe these funds buy high and sell low. Market history includes many points in time when stocks were overvalued, for example, the technology and dot-com bubble of the late 1990s. We believe this structural flaw of market capitalization weighted indexes can expose investors in products based upon such indexes to potentially higher risks and lower returns.

To address the structural flaw of market capitalization-weighting, we developed fundamentally weighted indexes that weight companies by a measure of fundamental value instead of market capitalization using a rules-based methodology. After researching fundamental indicators of value, we believe the most effective metrics are cash dividends or earnings. Our research indicated that weighting by cash dividends or earnings provided investors with better risk adjusted returns than market capitalization weighted indexes. The rules-based methodology that we created weights companies in our index based on either dividends or earnings in order to

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magnify the effect that dividends or earnings play on the total return of the index. For example, in our typical U.S. based indexes under our rules-based methodology, we weight each company based on their projected cash dividends to be paid over the coming year over the sum of the projected cash dividends to be paid by all companies in the index or we weight each company based on their previous annual earnings over the sum of the earnings by all companies in the index. Our funds are rebalanced annually and designed to reset back to an indicator of fundamental value either cash dividends paid or earnings generated. All of our index equity ETFs are based on this approach. We believe this fundamentally weighted approach offers better returns than comparable ETFs or mutual funds tracking market capitalization weighted indexes over the long-term.

We benchmark our fundamentally weighted indexes against traditional market capitalization weighted indexes designed to track similar companies, sectors, regions or exposure. Using our approach, 72% of the \$15.4 billion invested in our 34 equity ETFs were in funds that, since their respective inceptions through December 31, 2012, outperformed their market capitalization weighted or competitive benchmarks. Similarly, 23 of our 34 equity ETFs have outperformed their market capitalization weighted or competitive benchmarks over the same period. We believe this outperformance has been achieved primarily due to the weighting and selection of companies in our fundamentally weighted indexes using our rules-based methodology, rather than market capitalization weighted indexes.

### ***Actively Managed ETFs***

In 2008, we obtained regulatory approval to launch actively managed ETFs, which are ETFs that are not based on an index but rather are actively managed with complete transparency of the ETF's portfolio on a daily basis. Currently, we are one of several ETF sponsors that have already received the necessary exemptive relief from the SEC to launch actively managed ETFs. This has enabled us to develop products not yet offered by other ETF sponsors. See Business Regulation, below. Our actively managed ETFs includes currency, international fixed income and alternative strategy ETFs.

The securities purchased and sold by our ETFs include U.S. and foreign equities, forward currency contracts and U.S. and foreign debt instruments. In addition, we enter into derivative transactions, in particular U.S. listed futures contracts, non-deliverable currency forward contracts, and total return swap agreements in order to gain exposure to commodities, foreign currencies, and interest rates. The exchanges these securities trade on include all the major exchanges worldwide.

### **Sales, Marketing and Research**

We distribute our ETFs through all major channels within the asset management industry, including brokerage firms, registered investment advisors, institutional investors, private wealth managers and discount brokers. We do not target our ETFs for sale directly to the retail segment but rather to the financial or investment advisor who acts as the intermediary between the end-client and us. We do not pay commissions nor do we offer 12b-1 fees to financial advisors to use or recommend the use of our ETFs.

We have developed an extensive network and relationships with financial advisors and we believe our ETFs and related research are well structured to meet their needs and those of their clients. Our sales professionals act in a consultative role to provide the financial advisor with value-added services. We seek to consistently grow our network of financial advisors and we opportunistically seek to introduce new products that best deliver our investment strategies to investors through these distribution channels. We have our own team of 32 sales professionals located in the United States as of December 31, 2012.

In addition, we have agreements with third parties to serve as the external marketing agents for the WisdomTree ETFs in Latin America as well as with E\*Trade Financial to allow our ETFs to trade commission free on its brokerage platform in exchange for a percentage of our advisory fee revenue from certain AUM. We believe these arrangements expand our distribution capabilities in a cost-effective manner and we may continue to enter into such arrangements in the future.

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Our marketing effort is focused on three objectives: (1) generating new clients and inflows to our ETFs; (2) retaining existing clients, with a focus on cross-selling additional WisdomTree ETFs; and (3) building brand awareness. We pursue these objectives through a multi-faceted marketing strategy targeted at financial advisors within the asset management industry. We utilize the following strategies:

***Targeted advertising.*** We create highly targeted multi-media advertising campaigns limited to established core financial media. For example, our television advertising runs exclusively on the cable networks CNBC and Bloomberg Television; online advertising runs on investing or ETF-specific web sites, such as [www.seekingalpha.com](http://www.seekingalpha.com) and [www.etfdbase.com](http://www.etfdbase.com); and print advertising runs in core financial publications, including *Barron's* and *Institutional Investor*.

***Media relations.*** We have a full time public relations team who have established relationships with the major financial media outlets including: the *Wall Street Journal*, *Barron's*, the *Financial Times*, Bloomberg, Reuters and *USA Today*. We utilize these relationships to help create awareness of the WisdomTree ETFs and the ETF industry in general. Several members of management team are frequent market commentators and conference panelists.

***Direct marketing.*** We have a database of financial advisors to which we regularly market through targeted and segmented communications, such as on-demand research presentations, ETF-specific or educational events and presentations, quarterly newsletters and market commentary from our senior investment strategy advisor, Professor Jeremy Siegel.

***Social Media.*** We have implemented a social media strategy that allows us to connect directly with financial advisors and investors by offering timely access to our research material and more general market commentary. Our social media strategy allows us to continue to enhance our brand reputation of expertise and thought leadership in the ETF industry.

***Sales support.*** We create comprehensive materials to support our sales process including whitepapers, research reports, investment ideas and performance data for all WisdomTree ETFs.

We will continue to evolve our marketing and communication efforts in response to changes in the ETF industry, market conditions and marketing trends.

Our research team has three core functions: index development and oversight, investment research and sales support. In its index development role, the research group is responsible for creating the investment methodologies and overseeing the maintenance of our indexes that WisdomTree's equity ETFs are designed to track. The team also provides a variety of investment research around these indexes and market segments. Our research is typically academic-type research to support our products, including white papers on the strategies underlying our indexes and ETFs, investment insights on current market trends, and types of investment strategies that drive long-term performance. We distribute our research through our sales professionals, online through our website, targeted emails to financial advisors, or through financial media outlets, including interviews on CNBC and Bloomberg. On some occasions our research has been included in op-ed articles appearing in the *Wall Street Journal*. Shorter research notes are also developed to promote our ideas which are distributed online through social media channels. Finally, the research team supports our sales professionals in meetings as market experts and through custom analysis on client portfolio holdings. In addition, we consult with our senior investment strategy advisor, Professor Jeremy Siegel, on product development ideas and market commentaries.

## **Competition**

The asset management industry is highly competitive and we face substantial competition in virtually all aspects of our business. Factors affecting our business include fees for our products, investment performance, brand recognition, business reputation, quality of service and the continuity of our financial advisor relationships. We compete directly with other ETF sponsors and mutual fund companies and indirectly against other investment management firms, insurance companies, banks, brokerage firms and other financial institutions that

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offer products that have similar features and investment objectives to those offered by us. The vast majority of the firms we compete with are subsidiaries of large diversified financial companies and many others are much larger in terms of AUM, years in operations and revenues and, accordingly, have much larger sales organizations and budgets. In addition, these larger competitors may attract business through means that are not available to us, including retail bank offices, investment banking, insurance agencies and broker-dealers.

Our competitors, Vanguard, Charles Schwab, and BlackRock (through their iShares ETF family), are engaged in significant price competition and have lowered fees or launched new ETFs offering similar investment strategies with lower fees as well as waived trading commissions. The ETFs subject to this intense price competition typically track broad based market capitalization weighted equity indexes. We do compete against these firms for similar related equity strategies, however, our indexes are fundamentally weighted, not market capitalization weighted. Two index developers have created a series of fundamentally weighted indexes, using a different approach than ours. If price competition intensifies or we begin to compete with other ETF sponsors using a fundamentally weighted approach that is similar to ours at a lower price than ours, we may be required to reduce the advisory fees we charge in order to compete.

In 2008, the SEC announced a proposal to allow ETFs to form and operate without the need to obtain exemptive relief. This proposed rule has not yet been adopted and we do not know if or when it may be adopted. In March 2010, the SEC announced it would defer approval of applications for exemptive relief for ETFs that make significant use of derivatives pending a review by the SEC of the use of derivatives by mutual funds, ETFs and other investment companies. This moratorium was lifted in December 2012 and now potential competitors with the exemptive relief can compete with certain of our products. However, to date the SEC has not indicated whether the review time period or process required to obtain the initial exemptive relief will be altered. In addition, certain large mutual fund complexes have obtained exemptive relief to launch actively managed ETFs but have not done so yet. Removing the time barrier to obtain exemptive relief may bring additional competitors into the marketplace.

We believe our ability to successfully compete will depend largely on our competitive fee structure and our ability to achieve consistently strong investment performance, develop distribution relationships, create new investment products, offer a diverse platform of investment choices, build upon our successful brand and attract and retain talented sales professionals and other employees.

## **Regulation**

The investment management industry is subject to extensive regulation and virtually all aspects of our business are subject to various federal and state laws and regulations. These laws and regulations are primarily intended to protect investment advisory clients and shareholders of registered investment companies. These laws generally grant supervisory agencies broad administrative powers, including the power to limit or restrict the conduct of our business and to impose sanctions for failure to comply with these laws and regulations. Further, such laws and regulations may provide the basis for litigation that may also result in significant costs to us.

We are currently subject to the following laws and regulations, among others. The costs of complying with such laws and regulations have increased and will continue to contribute to the costs of doing business:

***The Investment Advisers Act of 1940*** ( Investment Advisers Act ) The SEC is the federal agency generally responsible for administering the U.S. federal securities laws. Our subsidiary, WisdomTree Asset Management, Inc. ( WTAM ), is registered as an investment adviser under the Investment Advisers Act and, as such, is regulated by the SEC. The Investment Advisers Act requires registered investment advisers to comply with numerous and broad obligations, including, among others, recordkeeping requirements, operational procedures, registration and reporting and disclosure obligations.

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***The Investment Company Act of 1940*** The WisdomTree ETFs are registered with the SEC pursuant to the Investment Company Act. The WisdomTree ETFs must comply with the requirements of the Investment Company Act and related regulations, as well as conditions imposed in the exemptive orders received by the ETFs, including, among others, requirements relating to operations, fees charged, sales, accounting, recordkeeping, disclosure and governance.

***Broker-Dealer Regulations*** Although we are not registered with the SEC as a broker-dealer under the Securities Exchange Act of 1934, as amended, nor are we a member firm of the Financial Industry Regulatory Authority (FINRA), many of our employees, including all of our salespersons, are licensed with FINRA and are registered as associated persons of the distributor of the WisdomTree ETFs and, as such, are subject to the regulations of FINRA that relate to licensing, continuing education requirements and sales practices. FINRA also regulates the content of our marketing and sales material.

***Internal Revenue Code*** WisdomTree Trust generally has obligations with respect to the qualification of the registered investment company for pass-through tax treatment under the Internal Revenue Code.

***U.S. Commodity Futures Trading Commission (CFTC)*** In 2012, the CFTC adopted regulations that have required us to become a member of the National Futures Association and register as a Commodity Pool Operator for a select number of our ETFs.

***Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010*** This comprehensive overhaul of the financial services regulatory environment requires federal agencies to implement numerous new rules, which, as they are adopted may impose additional regulatory burdens and expenses on our business.

Because ETFs do not fit into the regulatory provisions governing mutual funds, ETF sponsors need to obtain from the SEC exemptive relief from certain provisions of the Investment Company Act in order to operate ETFs. This exemptive relief allows the ETF sponsor to bring products to market for the specific products or structures they have applied for. Applying for exemptive relief can be costly and take several months to several years depending on the type of exemptive relief sought.

FINRA rules and guidance may affect how WisdomTree ETFs are sold by member firms. Although WisdomTree does not offer so-called leveraged ETFs, which may include within their holdings derivative instruments such as options futures or swaps, recent FINRA guidance on margin requirements and suitability determinations with respect to customers trading in leveraged ETFs may influence how member firms effect sales of certain WisdomTree ETFs, such as currency ETFs, which also use some forms of derivatives, including forward currency contracts and swaps.

Finally, our common stock is traded on the NASDAQ Global Market and we are therefore also subject to their rules including corporate governance listing standards. In addition, the WisdomTree ETFs are listed on NYSE Arca or the NASDAQ Market, and accordingly are subject to the listing requirements of those exchanges.

## **Property**

Our principal executive office is located at 380 Madison Ave, New York, New York 10017. We occupy approximately 20,000 square feet of office space under a lease that expires in January 2014. We have begun the search for new office space given the impending end of our lease term.

## **Intellectual Property**

We regard our name, WisdomTree, as material to our business and have registered WisdomTree® as a service mark with the U.S. Patent and Trademark Office and in various foreign jurisdictions.

Our index-based equity ETFs are based on our own indexes and we do not license them from, nor do we pay licensing fees to, third parties for these indexes.



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On March 6, 2012, the U.S. Patent and Trademark Office issued to us our patent on Financial Instrument Selection and Weighting System and Method, which is embodied in our dividend weighted equity indexes. We also have two patent applications pending with the U.S. Patent and Trademark office that relate to the operation of our ETFs and our index methodology. There is no assurance that patents will be issued from these applications and we currently do not rely upon our recently issued or future patents for a competitive advantage.

## **Employees**

As of December 31, 2012, we had 70 full-time employees. Of these employees, 32 are engaged in our sales function with the remainder providing managerial, finance, marketing, legal, regulatory compliance, operations and research functions. None of our employees are covered by a collective bargaining agreement and we consider our relations with employees to be good.

## **Segment and Geographic Areas**

We operate as one business segment, as an ETF sponsor and asset manager providing investment advisory services. Revenues are derived in the U.S. and all of our assets are located in the U.S.

## **Available Information**

### ***Company Website and Public Filings***

Our website is located at [www.wisdomtree.com](http://www.wisdomtree.com), and our investor relations website is located at <http://ir.wisdomtree.com/>. We make available, free of charge through our investor relations website, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to Sections 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after they have been electronically filed with, or furnished to, the SEC. The public may read and copy any materials filed by us with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C., 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding the Company at [www.sec.gov](http://www.sec.gov).

We webcast our earnings calls and certain events we participate in or host with members of the investment community on our investor relations website. Additionally, we provide notifications of news or announcements regarding our financial performance, including SEC filings, investor events, press and earnings releases as part of our investor relations website. Further corporate governance information, including board committee charters and code of conduct, is also available on our investor relations website under the heading Corporate Governance. The contents of our websites are not incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

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

*Any investment in our common stock involves a high degree of risk. You should consider carefully the specific risk factors described below in addition to the other information contained in this Report before making a decision to invest in our common stock. If any of these risks actually occur, our business, operating results, financial condition and prospects could be harmed. This could cause the trading price of our common stock to decline and a loss of all or part of your investment. Certain statements below are forward-looking statements. See the section entitled *Cautionary Note Regarding Forward-Looking Statements*.*

#### **Risks Related to Our Business and Our Industry**

*We have only a limited operating history and, as a result, recent historical growth may not provide an accurate representation of the growth we may experience in the future, which may make it difficult to evaluate our future prospects.*

We launched our first 20 ETFs in June 2006 and have only a limited operating history in the asset management business upon which an evaluation of our performance can be made. We have incurred significant losses since we launched our first ETFs. We first reported net income in the first quarter of 2011 and we only began to generate positive cash flow on a full quarterly basis in the second fiscal quarter of the year ended December 31, 2010 and, as a result, recent historical growth may not provide an accurate representation of the growth we may experience in the future, which may make it difficult to evaluate our future prospects. Although we have reported net income for the 2011 and 2012 fiscal years, we may not be able to maintain or increase our level of profitability. Prior to generating net income for 2011, we incurred net losses of \$27.0 million, \$21.2 million and \$7.5 million in 2008, 2009 and 2010, respectively. Even though we have achieved profitability, because of the various risks outlined in this Report, we cannot assure you that we will continue to be profitable.

*Challenging global market conditions associated with declining prices of securities can adversely affect our business by reducing the market value of the assets we manage or causing WisdomTree ETF shareholders to sell their fund shares and trigger redemptions.*

We are subject to risks arising from adverse changes in global market conditions and the declining prices of securities, which may result in a decrease in demand for investment products, a higher redemption rate and/or a decline in AUM. The securities markets are highly volatile and securities prices may increase or decrease for many reasons, including general economic conditions, political events, acts of terrorism and other matters beyond our control. Substantially all of our revenue is determined by the amount of our AUM and a substantial part of our AUM is represented by equity securities, in both the international and U.S. markets. As a result, our business can be expected to generate lower revenue in declining equity market environments or general economic downturns. A decline in the prices of securities held by the WisdomTree ETFs may cause our revenue to decline by either causing the value of our AUM to decrease, which would result in lower advisory fees, or causing investors in the WisdomTree ETFs to sell their shares in favor of investments they perceive to offer greater opportunity or lower risk, thus triggering redemptions that would also result in decreased AUM and lower fees.

*Fluctuations in the amount and mix of our AUM may negatively impact revenue and operating margin.*

The level of our revenue depends on the level and mix of our AUM. Our revenue is derived primarily from advisory fees based on a percentage of the value of our AUM and varies with the nature of the ETFs, which have different fee levels. Fluctuations in the amount and mix of our AUM may be attributable in part to market conditions outside of our control that have had, and in the future could have, a negative impact on our revenue and operating margin.

We are subject to an increased risk of asset volatility from changes in the foreign markets as discussed below. Individual markets may be adversely affected by economic, political, financial, or other instabilities that are particular to the country or regions in which a market is located, including without limitation local acts of terrorism, economic crises or other business, social or political crises. Declines in these markets and currency



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fluctuations have caused in the past, and may cause in the future, a decline in our revenue. Changing market conditions and currency fluctuations may cause a shift in our asset mix between foreign and U.S. assets, potentially resulting in a decline in our revenue since we generally derive higher fee revenue from our ETFs investing in foreign markets, particularly in emerging markets.

We have had in the past, and in the future may have, investors who maintain significant positions in one or more of our ETFs. If such an investor were to broadly change or withdraw its investments in our ETFs because of a change to its investment strategy, market conditions or any other reason, it may significantly change the level and mix of our AUM, which may negatively affect our revenue and operating margin.

***Most of our assets under management are held in ETFs that invest in foreign securities and we therefore have substantial exposure to foreign market conditions and are subject to currency exchange rate risks.***

Many of our ETFs invest in securities of companies, governments and other organizations located outside the United States and at December 31, 2012, approximately 75% of our AUM was held by these ETFs. Therefore, the success of our business is closely tied to market conditions in foreign markets. Investments in non-U.S. issuers are affected by political, social and economic uncertainty affecting a country or region in which we are invested. In addition, fluctuations in foreign currency exchange rates could reduce the revenue we earn from these foreign invested ETFs. This occurs because an increase in the value of the U.S. dollar relative to non-U.S. currencies may result in a decrease in the dollar value of the AUM in these ETFs, which, in turn, would result in lower revenue. Furthermore, investors are likely to believe these ETFs, as well as our suite of currency and fixed income ETFs, are a less attractive investment opportunity when the value of the U.S. dollar rises relative to non-U.S. currencies, which could have the effect of reducing investments in these ETFs, thus reducing revenue.

***We derive a substantial portion of our revenue from products invested in emerging markets and are exposed to the market-specific political and economic risks as well as general investor sentiment regarding future growth of those markets.***

At December 31, 2012, approximately 51% of our ETF AUM was concentrated in eight of our WisdomTree ETFs that primarily invest in equity or fixed income securities issued by companies or governments in emerging markets. In 2012, approximately 57% of our revenue was derived from those eight ETFs. As a result, our operating results are particularly exposed to the performance of those funds, economic and market conditions in those emerging markets, general investor sentiment regarding future growth in those emerging markets and our ability to maintain the assets under management of those funds. In addition, because these funds have a higher expense ratio than our other funds in general, they generate a disproportionate percentage of our total revenue. If the AUM in these funds were to decline, either because of declining market values or because of net outflows from these funds, our revenue would be adversely affected.

***We derive a substantial portion of our revenue from a limited number of products and, as a result, our operating results are particularly exposed to the performance of those funds, investor sentiment toward the strategies pursued by those funds and our ability to maintain the assets under management of those funds.***

At December 31, 2012, approximately 76% of our ETF AUM was concentrated in ten of our WisdomTree ETFs and approximately 55% of our ETF AUM was concentrated in five of our WisdomTree ETFs. As a result, our operating results are particularly exposed to the performance of those funds, investor sentiment toward investing in the strategies pursued by those funds and our ability to maintain the assets under management of those funds.

***The WisdomTree ETFs have a limited track record and poor investment performance could cause our revenue to decline.***

The WisdomTree ETFs have a limited track record upon which an evaluation of their investment performance can be made. At December 31, 2012, of our total 46 ETFs, only 30 ETFs had a five year track record and 39 had a three year track record. Furthermore, as part of our strategy, we continuously evaluate our product offerings to

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ensure that all of our funds are useful, compelling and differentiated investment offerings, to more competitively align our overall product line in the current ETF landscape and to reallocate our attention and resources to areas of greater client interest. As a result, we may further adjust our product offering which may result in the closing of some of our ETFs, changing their investment objective or offering of new funds. The investment performance of our funds is important to our success. While strong investment performance could stimulate sales of our ETFs, poor investment performance, on an absolute basis or as compared to third-party benchmarks or competitive products, could lead to a decrease in sales or stimulate redemptions, thereby lowering the assets under management and reducing our revenue. Our fundamentally-weighted equity ETFs are designed to provide the potential for better risk-adjusted investment returns over full market cycles and are best suited for investors with a longer-term investment horizon. However, the investment approach of our equity ETFs may not perform well during certain shorter periods of time during different points in the economic cycle.

***We currently depend on BNY Mellon to provide us with critical services to operate our business and the WisdomTree ETFs. The failure of BNY Mellon to adequately provide such services could materially affect our operating business and harm WisdomTree ETF shareholders.***

We currently depend upon BNY Mellon to provide the WisdomTree Trust with portfolio management services for all of our ETFs except for three that are managed by other sub-advisors. BNY Mellon also provides us with custody services, fund accounting, administration, transfer agency and securities lending services. The failure of BNY Mellon to provide us and the WisdomTree ETFs with these services could result in financial loss to us and WisdomTree ETF shareholders. In addition, because BNY Mellon provides a multitude of important services to us, and portfolio management for the WisdomTree ETFs covers several different asset classes, changing this vendor relationship would be challenging. It might require us to devote a significant portion of management's time to negotiate a similar relationship with another vendor or have these services provided by multiple vendors, which would require us to coordinate the transfer of these functions to another vendor or vendors.

***We depend on other third parties to provide many critical services to operate our business and the WisdomTree ETFs. The failure of key vendors to adequately provide such services could materially affect our operating business and harm WisdomTree ETF shareholders.***

In addition to BNY Mellon, we depend on other third-party vendors to provide us with many services that are critical to operating our business, including two additional subadvisors that provide us with portfolio management services, a third-party provider of index calculation services for our indexes, a distributor of the WisdomTree ETFs and a third-party provider of indicative values of the portfolios of the WisdomTree ETFs. The failure of these key vendors to provide us and the WisdomTree ETFs with these services could lead to operational issues and result in financial loss to us and WisdomTree ETF shareholders.

***The asset management business is intensely competitive. Many of our competitors have greater market share, offer a broader range of products and have greater financial resources than we do. As a result, we may experience pressures on our pricing and market share.***

Our business operates in intensely competitive industry segments. We compete directly with other ETF sponsors and mutual fund companies and indirectly against other investment management firms, insurance companies, banks, brokerage firms and other financial institutions that offer products that have similar features and investment objectives to those offered by us. We compete based on a number of factors, including name recognition, service, investment performance, product features and breadth of product choices, and fees. Many of our competitors have greater market share, offer a broader range of products and have greater financial resources than we do. Some financial institutions operate in a more favorable regulatory environment and/or have proprietary products and distribution channels which may provide certain competitive advantages to them and their investment products. Our competitors may also adopt products, services or strategies similar to ours, including the use of fundamentally-weighted indexes. In addition, over time certain sectors of the financial services industry have become considerably more concentrated, as financial institutions involved in a broad

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range of financial services have been acquired by or merged into other firms. This convergence could result in our competitors gaining greater resources and we may experience pressures on our pricing and market share as a result of these factors and as some of our competitors seek to increase market share by reducing prices. We believe that competition within the ETF industry will continue to increase as more traditional asset management companies become ETF sponsors.

### ***Competitive pressures could reduce revenue and profit margins.***

The investment management business is highly competitive and has relatively low barriers to entry. Although the ETF industry currently has a higher barrier to entry as a result of the need for ETF sponsors to obtain exemptive relief from the SEC in order to operate ETFs, we expect that additional companies, both new companies and traditional asset managers, many of whom are much larger than us, will enter the ETF space. In addition, in 2008, the SEC proposed a rule that, if adopted, would eliminate the need to obtain this exemptive relief. In March 2010, the SEC announced it would defer approval of applications for exemptive relief for ETFs that make significant use of derivatives pending a review by the SEC of the use of derivatives by mutual funds, ETFs and other investment companies. This moratorium was lifted in December, 2012 and may have served in the past to prevent potential competitors from directly competing with certain of our products. Now that the moratorium has been lifted we may face increased competition and we may be forced to compete increasingly on the basis of price, we may not be able to maintain our current fee structure. Fee reductions on existing or future new products could cause our revenue and profit margins to decline.

### ***Our revenue could be adversely affected if the WisdomTree Trust determines that the advisory fees we receive from the WisdomTree ETFs should be reduced.***

Our advisory agreements with the WisdomTree Trust and the fees we collect from the WisdomTree ETFs are subject to review and approval by the independent trustees of the WisdomTree Trust. The advisory agreements are subject to initial review and approval. After the initial two-year term of the agreement for each ETF, the continuation of such agreement must be reviewed and approved at least annually by a majority of the independent trustees. In determining whether to approve the agreements, the independent trustees consider factors such as (i) the nature and quality of the services provided by us, (ii) the fees charged by us and the costs and profits realized by us in connection with such services, as well as any ancillary or fall-out benefits from such services, (iii) the extent to which economies of scale are shared with the WisdomTree ETFs, and (iv) the level of fees paid by other similar funds. If the independent trustees determine that the advisory fees we charge to any particular fund are too high, we will need to reduce our fees, which could adversely affect our revenue.

### ***We have contracted with a third-party financial intermediary that markets our investment portfolios in Latin America and this relationship may not be available or profitable to us in the future.***

This third-party intermediary generally offers its clients various investment products in addition to, and in competition with, our investment offerings. It would be difficult for us to acquire or retain the management of those assets without the assistance of the intermediary and we cannot be assured that we will be able to maintain this marketing relationship.

### ***Our risk management policies and procedures, and those of our third-party vendors upon which we rely, may not be fully effective in identifying or mitigating risk exposure, including employee misconduct. If our policies and procedures do not adequately protect us from exposure to these risks, we may incur losses that would adversely affect our financial condition, reputation and market share.***

We have developed risk management policies and procedures and we continue to refine them as we conduct our business. Many of our procedures involve oversight of third-party vendors that provide us with critical services such as portfolio management, custody and fund accounting and administration, and index calculation services. Our policies and procedures to identify, monitor and manage risks may not be fully effective in mitigating our risk exposure. Moreover, we are subject to the risks of errors and misconduct by our employees,

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including fraud and non-compliance with policies. These risks are difficult to detect in advance and deter, and could harm our business, results of operations or financial condition. Although we maintain insurance and use other traditional risk-shifting tools, such as third-party indemnification, in order to manage certain exposures, they are subject to terms such as deductibles, coinsurance, limits and policy exclusions, as well as risk of counterparty denial of coverage, default or insolvency. If our policies and procedures do not adequately protect us from exposure and our exposure is not adequately covered by insurance or other risk-shifting tools, we may incur losses that would adversely affect our financial condition and could cause a reduction in our revenue as WisdomTree ETF shareholders shift their investments to the products of our competitors.

### ***Compliance with extensive, complex and changing regulation imposes significant financial and strategic costs on our business, and non-compliance could result in fines and penalties.***

Our business is subject to extensive regulation of our business and operations. Our subsidiary, WisdomTree Asset Management, Inc., or WTAM, is a registered investment adviser and is subject to oversight by the SEC pursuant to its regulatory authority under the Investment Advisers Act. We also must comply with certain requirements under the Investment Company Act, with respect to the WisdomTree ETFs for which WTAM acts as investment adviser. WTAM is also a member of the National Futures Association, or NFA, and registered as a Commodity Pool Operator for certain of our ETFs. As a Commodity Pool Operator we are subject to oversight by the NFA and the Commodities Futures Trading Commission pursuant to regulatory authority under the Commodities Exchange Act. In addition, the content and use of our marketing and sales materials and of our sales force is subject to the regulatory authority of FINRA. To a lesser extent, we are also subject to foreign laws and regulatory authorities with respect to operational aspects of our funds that invest in securities of issuers in foreign countries and in the sales of our funds in foreign jurisdictions. Each of the regulatory bodies with jurisdiction over us has regulatory powers dealing with many aspects of our business, including the authority to grant, and, in specific circumstances to cancel, permissions to carry on particular businesses. Our failure to comply with applicable laws or regulations could result in fines, censure, suspensions of personnel or other sanctions, including revocation of our registration as an investment adviser. Even if a sanction imposed against us or our personnel is small in monetary amount, the adverse publicity arising from the imposition of sanctions against us by regulators could harm our reputation and thus result in redemptions from our ETFs and impede our ability to retain WisdomTree ETF shareholders and develop new WisdomTree ETF shareholders, all of which may reduce our revenue.

We face the risk of significant intervention by regulatory authorities, including extended investigation activity, adoption of costly or restrictive new regulations and judicial or administrative proceedings that may result in substantial penalties. Among other things, we could be fined or be prohibited from engaging in some of our business activities. The requirements imposed by our regulators are designed to ensure the integrity of the financial markets and to protect WisdomTree ETF shareholders and our advisory clients, and are not designed to protect our stockholders. Consequently, these regulations often serve to limit our activities, including through WisdomTree ETF shareholder protection and market conduct requirements.

In addition, the regulatory environment in which we operate is subject to modifications and further regulation. Recently, concerns have been raised about ETFs' alleged contribution to market volatility as well as the disclosure requirements applicable to certain types of more complex ETFs. New laws or regulations, or changes in the enforcement of existing laws or regulations, applicable to us and our clients also may adversely affect our business, and our ability to function in this environment will depend on our ability to constantly monitor and react to these changes. Regulatory uncertainty continues to surround the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, which represented a comprehensive overhaul of the financial services regulatory environment and requires federal agencies to implement numerous new rules, which, if adopted, may impose additional regulatory burdens and expenses on our business. Compliance with new laws and regulations may result in increased compliance costs and expenses.

Specific regulatory changes also may have a direct impact on our revenue. In addition to regulatory scrutiny and potential fines and sanctions, regulators continue to examine different aspects of the asset management industry.

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New regulation or judicial interpretations regarding the annual approval process for investment advisory agreements may result in the reduction of fees under these agreements, which would mean a reduction in our revenue.

***Damage to our reputation could adversely affect our business.***

We believe we have developed a strong brand and a reputation for innovative, thoughtful products, favorable long-term investment performance and excellent client services. The WisdomTree name and brand is a valuable asset and any damage to it could hamper our ability to maintain and grow our AUM and attract and retain employees, thereby having a material adverse effect on our revenue. Risks to our reputation may range from regulatory issues to unsubstantiated accusations. Managing such matters may be expensive, time-consuming and difficult. As described in the section entitled *Management Involvement in Certain Legal Proceedings*, Michael Steinhardt, who currently serves as the chairman of our Board of Directors and beneficially owns approximately 15.4% of our common stock, was sanctioned in civil litigation by the Court of Chancery of the State of Delaware and is required to, among other things, self-report certain trading activity not involving the Company's securities to the SEC. Mr. Steinhardt's actions did not involve the Company and, based on the facts currently known, which we are continuing to review, we do not believe Mr. Steinhardt's actions will have a material impact on our business, although there can be no assurance that this will be the case or that these matters, and any investigations or actions that result from these matters, will not have an adverse effect on our reputation or the price of our common stock. For more details, see the section entitled *Management Involvement in Certain Legal Proceedings*.

***Abnormally wide bid/ask spreads and market disruptions that halt or disrupt trading or create extreme volatility could undermine investor confidence in the ETF investment structure and limit investor acceptance of ETFs.***

The shares of the WisdomTree ETFs, like the shares of all ETFs, trade on exchanges in market transactions that generally approximate the value of the underlying portfolio of securities held by the particular ETF. Trading involves risks including the potential lack of an active market for fund shares, abnormally wide bid/ask spreads (the difference between the prices at which shares of an ETF can be bought and sold) that can exist for a variety of reasons and losses from trading. These risks can be exacerbated during periods when there is low demand for an ETF, when the markets in the underlying basket of securities are closed, when markets conditions are extremely volatile or when trading is disrupted. This could result in limited growth or a reduction in the overall ETF market and result in our revenue not growing as rapidly as it has in the recent past or even in a reduction of revenue.

***We have experienced significant growth in recent years, and if we were unable to manage this growth it could have a material adverse effect on our business.***

We have experienced significant growth in recent years, which has placed increased demands on our management and other resources and will continue to do so in the future. We may not be able to maintain or accelerate our current growth rate, manage our expanding operations effectively or achieve planned growth on a timely or profitable basis. Managing our growth effectively will involve, among other things:

continuing to retain, motivate and manage our existing employees and attract and integrate new employees;

developing, implementing and improving our operational, financial, accounting, reporting and other internal systems and controls on a timely basis; and

maintaining and developing our various support functions including human resources, information technology, legal and corporate communications.

If we are unable to manage our growth effectively, there could be a material adverse effect on our ability to maintain or increase revenue and profitability.

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Continued growth will require continued investment in personnel, information technology infrastructure and marketing activities, as well as further development and implementation of financial, operational and compliance systems and controls. We may not be successful in implementing all of the processes that are necessary to support our growth. Unless our growth results in an increase in our revenue that is at least proportionate to the increase in our costs associated with this growth, our gross margins and our future profitability will be adversely affected.

Our growth strategy also involves, among other things, diversifying our product line to include more ETFs in non-equity asset classes, including fixed income and alternative investment strategies. This will require us to develop products in areas in which we do not have significant prior experience. We may not be successful in developing new products and if developed and launched, we may not be successful in marketing these new products.

### ***Our ability to operate effectively could be impaired if we fail to retain or recruit key personnel.***

The success of our business and the implementation of our growth strategy are highly dependent on our ability to attract, retain and motivate highly skilled, and sometimes highly specialized, employees, including in particular, operations, product development, research and sales personnel. Our employees may voluntarily terminate their employment at any time. The market for these individuals is extremely competitive and is likely to become more so as additional investment management firms enter the ETF industry. Our compensation methods may not enable us to recruit and retain required personnel. In particular, our use of equity grants as a component of total employee compensation may be ineffective if the market price of our common stock declines. Also, we may need to increase compensation levels, which would decrease our net income or increase our losses. If we are unable to retain and attract key personnel, it could have an adverse effect on our business, results of operations and financial condition.

### ***Changes in U.S. federal income tax law could make some of our products less attractive to investors.***

Many of the WisdomTree ETFs seek to obtain the investment return achieved by our proprietary indexes that weigh index components based upon dividends. Even with the recent increase in tax rates applicable to dividends, corporate dividends continue to enjoy favorable tax treatment under current U.S. federal income tax law. If the tax rates imposed on dividends were increased, it may make these WisdomTree ETFs less attractive to investors.

### ***Our expenses are subject to fluctuations that could materially affect our operating results.***

Our results of operations are dependent in part on the level of our expenses, which can vary from quarter to quarter. Our expenses may fluctuate primarily as a result of discretionary spending, including marketing, advertising and sales expenses we incur to support our growth initiatives. Accordingly, our results of operation may vary from quarter to quarter.

### ***Any significant limitation or failure of our technology systems, or the technology systems of our third party vendors, that are critical to our operations could interrupt or damage our operations and result in material financial loss, regulatory violations, reputational harm or legal liability.***

We are dependent upon the effectiveness of our own, and our vendors', information security policies, procedures and capabilities to protect the technology systems used to operate our business and to protect the data that reside on or are transmitted through them. Although we and our third party vendors take protective measures to secure information, our technology systems may still be vulnerable to unauthorized access, computer viruses or other events that could result in inaccuracies in our information or system disruptions or failures, which could materially interrupt or damage our operations. Any inaccuracies, delays or system failures could subject us to client dissatisfaction and losses or result in material financial loss, regulatory violations, reputational harm or legal liability, which, in turn, could cause a decline in our earnings or stock price.

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*We may from time to time in the future be involved in legal proceedings that could require significant management time and attention, possibly resulting in significant expense or in an unfavorable outcome, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.*

From time to time, we may be subject to litigation. In connection with any litigation in which we are involved, we may be forced to incur costs and expenses in connection with defending ourselves or in connection with the payment of any settlement or judgment or compliance with any injunctions in connection therewith if there is an unfavorable outcome. The expense of defending litigation may be significant. The amount of time to resolve lawsuits is unpredictable and defending ourselves may divert management's attention from the day-to-day operations of our business, which could adversely affect our business, results of operations, financial condition and cash flows. In addition, an unfavorable outcome in any such litigation could have a material adverse effect on our business, results of operations, financial condition and cash flows.

*The Chairman of our Board may be subject to future sanctions that could adversely affect us.*

Michael Steinhardt, who currently serves as the chairman of our Board of Directors, was sanctioned in civil litigation by the Court of Chancery of the State of Delaware and was required to, among other things, self-report certain trading activity not involving the Company's securities to the SEC. If the SEC or NASDAQ were to conclude that Mr. Steinhardt's actions violated federal securities law or other rules, the SEC or NASDAQ could seek remedies including, among other things, barring Mr. Steinhardt from serving on our Board of Directors. NASDAQ could also seek to delist shares of our common stock from the NASDAQ Global Market. Mr. Steinhardt's actions did not involve the Company and, based on the facts currently known, which we are continuing to monitor, we do not believe Mr. Steinhardt's actions will have a material impact on our business. However, there can be no assurance that this will be the case or that this will not have an adverse effect on our reputation or the price of our common stock.

*Catastrophic and unpredictable events could have a material adverse effect on our business.*

A terrorist attack, war, power failure, cyber-attack, natural disaster or other catastrophic or unpredictable event could adversely affect our revenue, expenses and operating results by: interrupting our normal business operations; inflicting employee casualties, including loss of our key employees; requiring substantial expenditures and expenses to repair, replace and restore normal business operations; and reducing investor confidence. We have a disaster recovery plan to address certain contingencies, but this plan may not be sufficient in responding or ameliorating the effects of all disaster scenarios. Similarly, these types of events could also affect the ability of the third-party vendors that we rely upon to conduct our business e.g., BNY Mellon which provides us with sub-advisory portfolio management services for most of our funds as well as custodial, fund accounting and administration services, or Standard & Poor's, which provide us with index calculation services to continue to provide these necessary services to us, even though they may also have disaster recovery plans to address these contingencies. If we or our third-party vendors are unable to respond adequately or in a timely manner, this failure may result in a loss of revenue and/or increased expenses, either of which would have a material adverse effect on our operating results.

*A change of control of our Company would automatically terminate our investment management agreements relating to the WisdomTree ETFs unless the Board of Trustees of the WisdomTree Trust and shareholders of the WisdomTree ETFs voted to continue the agreements. A change in control could occur if a third party were to acquire controlling interest in our Company.*

Under the Investment Company Act, an investment management agreement with a fund must provide for its automatic termination in the event of its assignment. The fund's board must vote to continue such an agreement following any such assignment and the shareholders of the WisdomTree ETFs must approve the assignment. The cost of obtaining such shareholder approval can be significant and which ordinarily would be borne by us. Similarly, under the Investment Advisers Act, a client's investment management agreement may not be assigned by the investment advisor without the client's consent.

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An investment management agreement is considered under both acts to be assigned to another party when a controlling block of the advisor's securities is transferred. Under both acts, there is a presumption that a stockholder beneficially owning 25% or more of an advisor's voting stock controls the advisor and conversely a stockholder beneficially owning less than 25% is presumed not to control the advisor. In our case, an assignment of our investment management agreements may occur if a third party were to acquire a controlling interest in our Company. We cannot be certain that the Trustees of the WisdomTree ETFs would consent to assignments of our investment management agreements or approve new agreements with us if a change of control occurs. And even if such approval were obtained, approval from the shareholders of the WisdomTree ETFs would be required to be obtained; such approval could not be guaranteed and even if obtained, likely would result in significant expense. This restriction may discourage potential purchasers from acquiring a controlling interest in our Company.

*We may from time to time be subject to claims of infringement of third-party intellectual property rights, which could harm our business.*

Third parties may assert against us alleged patent, copyright, trademark or other intellectual property rights to intellectual property that is important to our business. Any claims that our products or processes infringe the intellectual property rights of others, regardless of the merit or resolution of such claims, could cause us to incur significant costs in responding to, defending and resolving such claims, and may divert the efforts and attention of our management from our business. As a result of such intellectual property infringement claims, we could be required or otherwise decide that it is appropriate to:

pay third-party infringement claims;

discontinue selling the particular funds subject to infringement claims;

discontinue using the processes subject to infringement claims;

develop other intellectual property or products not subject to infringement claims, which could be time-consuming and costly or may not be possible; or

license the intellectual property from the third party claiming infringement, which license may not be available on commercially reasonable terms.

The occurrence of any of the foregoing could result in unexpected expenses, reduce our revenue and adversely affect our business and financial results. In addition, we are currently covered by a relatively small number of equity research analysts, whose views on the merits or impact of any claim of infringement of third-party intellectual property rights may differ from ours and result in the issuance of unfavorable commentaries by such analysts, which could have an adverse effect on the price and trading volume of our common stock.

For example, on December 1, 2011, Research Affiliates, LLC filed suit against us in the United States District Court for the Central District of California, alleging that the fundamentally weighted investment methodology we employ infringes three of plaintiff's patents, and seeking both unspecified monetary damages to be determined and an injunction to prevent further infringement. For more details, see Business Legal Proceedings. Although this matter was settled in a manner satisfactory to us, we could face similar suits in the future.

*We have been issued a patent and have applied for other patents, but additional patents may not be issued and we may not be able to enforce or protect our patents and other intellectual property rights, which may harm our ability to compete and harm our business.*

Although we have a patent and have applied for other patents relating to our index methodology and the operation of our equity ETFs, these other patents may not be issued to us. In addition, even if issued, our ability to enforce our patents and other intellectual property rights is subject to general litigation risks. While we have been competing without the benefit of these patents being issued, if they are not issued or we cannot successfully enforce them, we may lose the benefit of a future competitive advantage that they would otherwise provide to us. If we seek to enforce our rights, we could be subject to claims that the intellectual property right is invalid or is





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otherwise not enforceable. Furthermore, our assertion of intellectual property rights could result in the other party seeking to assert alleged intellectual property rights of its own or assert other claims against us, which could harm our business. If we are not ultimately successful in defending ourselves against these claims in litigation, we may be subject to the risks described in the immediately preceding risk factor entitled "We may from time to time be subject to claims of infringement of third-party intellectual property rights, which could harm our business."

***Future strategic transactions, including business combinations, mergers and acquisitions, may occur at any time, be significant in size relative to our assets and operations, result in significant changes in our business and materially and adversely affect our stock price. Additionally, we may expend significant financial, management time and other resources without the consummation of such transactions or the realization of the anticipated benefits.***

We believe attractive opportunities for strategic transactions exist, some of which may be material to our operations and financial condition if consummated. We have engaged in the past and expect to continue to engage in the future in strategic discussions that we believe may enable us to strengthen our business, expand and diversify our product offering, increase our AUM or enter into new markets. Such transactions may result in our issuing a significant amount of our common stock or other security that could be dilutive to our stockholders, result in substantial borrowings, result in changes in our board composition and/or management team, constitute a change of control of our Company, lead to significant changes in our product offering, business operations and earning and risk profiles, and/or result in a decline in the price of our common stock.

Even if consummated, such transactions may involve numerous risks, including, among others:

failure to achieve financial, operating or business objectives;

failure to integrate successfully and in a timely manner any operations, products, services or technology;

diversion of the attention of management and other personnel;

failure to obtain necessary regulatory, shareholder or other approvals;

failure to retain personnel;

failure to obtain any necessary financing on acceptable terms or at all;

unforeseen liabilities or expenses;

failure of counterparties to indemnify us against liabilities arising from such transactions;

potential loss of, or harm to, our relationship with our and the counterparties' employees, customers and suppliers as a result of integration of new businesses;

accounting charges;

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unfavorable market conditions that could negatively impact the acquired or combined businesses; and

legal proceedings, including lawsuits brought by stockholders of us or the counterparties which may result in expenses and/or have a material adverse effect on our business.

We could be prevented from, or significantly delayed in, achieving our strategic goals if we are unable to successfully integrate acquired businesses. Our ability to complete future strategic transactions depends upon a number of factors that are not entirely within our control, including our ability to identify suitable merger or acquisition candidates, negotiate acceptable terms, conclude satisfactory agreements and secure financing. Our failure to complete strategic transactions or to integrate and manage acquired or combined businesses successfully could materially and adversely affect our business, results of operations and financial conditions.

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### **Risks Relating to our Common Stock**

*The market price of our shares may fluctuate significantly, and you could lose all or part of your investment.*

The market price of our common stock may fluctuate widely, depending upon many factors, some of which may be beyond our control, including:

decreases in our assets under management;

variations in our quarterly operating results;

differences between our actual financial operating results and those expected by investors and analysts;

publication of research reports about us or the investment management industry;

changes in expectations concerning our future financial performance and the future performance of the ETF industry and the asset management industry in general, including financial estimates and recommendations by securities analysts;

our strategic moves and those of our competitors, such as acquisitions or consolidations;

changes in the regulatory framework of the ETF industry and the asset management industry in general and regulatory action, including action by the SEC to lessen the regulatory requirements or shortening the process to obtain regulatory relief under the Investment Company Act that is necessary to become an ETF sponsor;

changes in general economic or market conditions; and

realization of any other of the risks described elsewhere in this section.

In addition, stock markets in general have experienced volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations may adversely affect the trading price of our common stock. Furthermore, in the past, market fluctuations and price declines in a company's stock have led to securities class action litigations or other derivative shareholder lawsuits. If such a suit were to arise, it could cause substantial costs to us and divert our resources regardless of the outcome.

*Future sales of our common stock in the public market by management or our large stockholders could lower our stock price.*

As of February 15, 2013, our largest stockholder (who serves on our Board of Directors), together with the other members of our Board of Directors and our executive officers, beneficially owned approximately 25.7% of our outstanding common stock. If our existing stockholders sell, or indicate an intent to sell, substantial amounts of our common stock in the public market, the trading price of our common stock may decline significantly. We cannot predict the effect, if any, that future public sales of these shares or the availability of these shares for sale will have on the market price of our common stock.

*If equity research analysts issue unfavorable commentary or downgrade our common stock, the price of our common stock could decline.*

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The trading market for our common stock relies in part on the research and reports that equity research analysts publish about us and our business. We do not control the opinions of these analysts. The price and trading volume of our common stock could decline if one or more equity analysts downgrade our common stock or if analysts issue other unfavorable commentary or cease publishing reports about us or our business.

***Future issuance of our common stock could lower our stock price and dilute the interests of existing stockholders.***

We may issue additional shares of our common stock in the future, either in connection with an acquisition or for other business reasons. The issuance of a substantial amount of common stock could have the effect of

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substantially diluting the interests of our current stockholders. In addition, the sale of a substantial amount of common stock in the public market, either in the initial issuance or in a subsequent resale by the target company in an acquisition which received such common stock as consideration or by investors who acquired such common stock in a private placement could have a material adverse effect on the market price of our common stock.

***The members of our Board of Directors, their affiliates and our executive officers, as stockholders, can exert significant influence over our Company.***

As of February 15, 2013, the members of our Board of Directors and our executive officers, as stockholders, collectively beneficially owned 25.7% of our outstanding common stock. As a result of this ownership, they have the ability to significantly influence all matters requiring approval by stockholders of our Company, including the election of directors. This concentration of ownership also may have the effect of delaying or preventing a change in control of our Company that may be favored by other stockholders. This could prevent transactions in which stockholders might otherwise receive a premium for their shares over current market prices.

Although our directors and officers have a duty of loyalty to us under Delaware law and our amended and restated certificate of incorporation, transactions that we enter into in which a director or officer has a conflict of interest are generally permissible so long as (1) the material facts relating to the director's or officer's relationship or interest as to the transaction are disclosed to our Board of Directors and a majority of our disinterested directors, or a committee consisting solely of disinterested directors, approves the transaction, (2) the material facts relating to the director's or officer's relationship or interest as to the transaction are disclosed to our stockholders and a majority of our disinterested stockholders approves the transaction, or (3) the transaction is otherwise fair to us. Under our certificate of incorporation, representatives of our stockholders are not required to offer to us any transaction opportunity of which they become aware and could take any such opportunity for themselves or offer it to other companies in which they have an investment, unless such opportunity is expressly offered to them solely in their capacity as a director of ours. The listing requirements of the NASDAQ Global Market, upon which our common stock is listed, also require that certain transactions in which a director or officer has a conflict of interest must be considered and approved by our Audit Committee, which consists solely of independent directors.

***A provision in our certificate of incorporation and by-laws may prevent or delay an acquisition of our Company, which could decrease the market value of our common stock.***

Provisions of Delaware law, our amended and restated certificate of incorporation and our amended and restated by-laws may discourage, delay or prevent a merger, acquisition or other change in control that stockholders may consider favorable. These provisions may also prevent or delay attempts by stockholders to replace or remove our current management or members of our Board of Directors. These provisions include:

a classified Board of Directors;

limitations on the removal of directors;

advance notice requirements for stockholder proposals and nominations;

the inability of stockholders to act by written consent or to call special meetings;

the ability of our Board of Directors to make, alter or repeal our amended and restated by-laws; and

the authority of our Board of Directors to issue preferred stock with such terms as our Board of Directors may determine.

In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law, which limits business combination transactions with stockholders of 15% or more of our outstanding voting stock that our Board of Directors has not approved. These provisions and other similar provisions make it more difficult for stockholders or potential acquirers to acquire us without negotiation. These provisions

may apply even if some stockholders may consider the transaction beneficial to them.

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As a result, these provisions could limit the price that investors are willing to pay in the future for shares of our common stock. These provisions might also discourage a potential acquisition proposal or tender offer, even if the acquisition proposal or tender offer is at a premium over the then current market price for our common stock.

*We do not intend to pay dividends in the near term.*

We have never paid dividends on our common stock and we currently intend to invest our available cash flow in the near term in strategic growth initiatives, re-acquire shares of our common stock issued to our employees as incentive compensation or expand our business through strategic acquisitions. Thus, the shares of common stock may not realize a return in the form of dividends in the near term. Investors who anticipate the need for immediate dividends from shares of common stock should refrain from purchasing our common stock. In addition, our Board of Directors is authorized, without stockholder approval, to issue preferred stock with such terms as our Board of Directors may, in its discretion, determine. Our Board of Directors could, therefore, issue preferred stock with dividend rights superior to that of the common stock, which could also limit the payment of dividends on the common stock.

### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

### **ITEM 2. PROPERTIES**

Our principal executive office is located at 380 Madison Ave, New York, New York 10017. We occupy approximately 20,000 square feet of office space under a lease that expires in January 2014. We believe that the space we lease is sufficient to meet our term needs until the expiration of the lease and we have begun to search for new office space and as such expect these costs to increase in the future.

### **ITEM 3. LEGAL PROCEEDINGS**

As an investment advisor, we may be subject to routine reviews and inspections by the SEC, as well as legal proceedings arising in the ordinary course of business. We are not currently party to any litigation or other legal proceedings that are expected to have a material impact on our business, financial position, results of operations or cash flows.

On December 1, 2011, Research Affiliates, LLC filed a complaint in the United States District Court for the Central District of California, (Research Affiliates, LLC v. WisdomTree Investments, Inc., et. al., Case No. SACV11-01846 DOC (ANx)), naming us and our subsidiaries, as well as WisdomTree Trust, Mellon Capital Management Corporation and ALPS Distributors, Inc., as defendants. In the complaint, plaintiff alleged that the fundamentally weighted investment methodology we employ for the ETFs using our indexes infringed three of plaintiff's patents and sought both unspecified monetary damages to be determined and an injunction to prevent further infringement.

On November 7, 2012, Research Affiliates, LLC agreed to withdraw its patent infringement suit against us and we agreed to withdraw our counterclaims and entered into a settlement agreement. Under the settlement, all parties exchanged releases for all existing claims. The other material terms of the settlement are as follows:

Research Affiliates agreed not to sue us for any future claims arising under any current patents held by Research Affiliates, as well as any future patents relating to fundamentally-weighted indexes and strategies that may issue under existing or future patent applications that may be filed by Research Affiliates within the next eight years, subject to reduction by up to three years if Research Affiliates is acquired. The covenant not to sue extends to our service providers and customers in connection with our products and services.



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We agreed not to sue Research Affiliates for any future claims arising under any current patents held by us, as well as any future patents relating to fundamentally-weighted indexes and strategies that may issue under existing or future patent applications that may be filed by us within the next eight years, subject to reduction by up to three years if we are acquired. The covenant not to sue extends to service providers and customers of Research Affiliates in connection with Research Affiliates' products and services.

Research Affiliates and we agreed that the covenants not to sue do not include a right under each party's patents to copy the other party's methodologies. Research Affiliates and we further agreed that it is not copying if Research Affiliates introduces an index or strategy that uses at least three fundamental factors to weight its indexes and they are not predominantly dividend- or earnings-weighted, or we introduce an index or strategy that is weighted by less than three fundamental factors.

The parties also agreed not to challenge the other party's patents or patent applications.

Research Affiliates agreed to a one-time payment of \$0.7 million to us. We and the other defendants were not required to make any current or future payments to Research Affiliates.

All other terms of the settlement are confidential and the settlement will not affect the current methodologies and fees for WisdomTree ETFs.

Our insurance carrier funded a significant majority of the cost of defending this patent infringement lawsuit. The net amount of expense, taking into account legal defense and other associated costs we paid to defend ourselves less any amounts our insurance carrier agreed to reimburse us and the receipt of a settlement payment from Research Affiliates, we incurred was \$0.2 million in both 2011 and 2012.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**Table of Contents****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information**

Our common stock is traded on the NASDAQ Global Market under the symbol WETF. Prior to July 26, 2011, our common stock was quoted on the over-the-counter Pink OTC Markets under the symbol WSDT. The following table sets forth the intra-day high and low sale prices per share as reported by the NASDAQ Global Market and the Pink OTC Markets, for the respective periods that our common stock was traded thereon.

<b>Period</b>	<b>High</b>	<b>Low</b>
<b>Fiscal 2012</b>		
Quarter ended December 31, 2012	\$ 7.34	\$ 5.71
Quarter ended September 30, 2012	\$ 7.26	\$ 6.17
Quarter ended June 30, 2012	\$ 8.74	\$ 6.26
Quarter ended March 31, 2012	\$ 8.95	\$ 5.37
<b>Fiscal 2011</b>		
Quarter ended December 31, 2011	\$ 8.22	\$ 5.68
Quarter ended September 30, 2011	\$ 9.60	\$ 6.35
Quarter ended June 30, 2011	\$ 7.25	\$ 5.68
Quarter ended March 31, 2011	\$ 5.87	\$ 4.08

As of December 31, 2012, there were approximately 136 holders of record of shares of our common stock and we believe there were approximately 11,151 beneficial owners of our common stock.

**Dividends**

We have never declared or paid dividends on our common stock. We do not anticipate paying any dividends on our common stock in the foreseeable future. We currently intend to retain all available funds and any future earnings to fund the development and growth of our business. Any future determination to declare dividends will be subject to the discretion of our Board of Directors and will depend on various factors, including applicable laws, our results of operations, financial condition, future prospects and any other factors deemed relevant by our Board of Directors.

**Securities Authorized for Issuance under Equity Compensation Plans**

The table below sets forth information with respect to shares of Common Stock that may be issued under the Company's equity compensation plans as of December 31, 2012. Information is included for equity compensation plans approved by our stockholders and equity compensation plans not approved by our stockholders

<b>Plan category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights (b)</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in</b>

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				<b>column (a) (c)</b>
Equity compensation plans approved by security holders(1)	5,145,191	\$	1.89	4,305,761
Equity compensation plans not approved by security holders(2)	7,615,000	\$	0.31	631,865
<b>Total</b>	<b>12,760,191</b>	<b>\$</b>	<b>0.95</b>	<b>4,937,626</b>

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- (1) Includes securities issuable upon exercise of outstanding options, warrants and rights that were issued pursuant to the Company's 1993 Stock Option Plan, 1996 Performance Equity Plan, 2000 Performance Equity Plan and 2005 Performance Equity Plan.
- (2) Our non-plan options are similar to options granted under our equity compensation plans and generally were granted outside of these plans when insufficient shares were available for grant under our plans. These options provide the holder with the right to purchase a certain number of shares of our common stock at a predetermined fixed price for a period of not more than ten years. All of the non-plan options were granted to directors, employees or advisors to our Board of Directors and the exercise price was determined to be not less than the fair market value of our common stock on the date of grant.

**Issuer Purchases of Equity Securities**

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

	(in thousands, except share and per share amounts)			
	Total Number of Shares Purchased(1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
<b>October 1, 2012 to October 31, 2012</b>				
<b>November 1, 2012 to November 30, 2012</b>				
<b>December 1, 2012 to December 31, 2012</b>	<b>174,951</b>	<b>\$ 6.24</b>		

- (1) Total number of shares purchased reflects shares withheld pursuant to the terms of awards granted to employees towards the employee's tax withholding obligations that occur upon vesting and release of the restricted shares. The value of the shares withheld is based upon the volume weighted average price of the common stock on the date of vesting. During the three months ended December 31, 2012, the Company repurchased 174,951 shares of Company stock withheld pursuant to the terms of awards granted to employees towards tax withholding obligations for an aggregate price of \$1,091,694 with an average price per share of \$6.24.

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You should read the selected consolidated financial data presented below in conjunction with the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Report and our consolidated financial statements and the related notes included elsewhere in this Report. The selected consolidated statements of operations data presented below under the heading "Consolidated Statements of Operations Data" for the years ended December 31, 2010, 2011 and 2012 and the selected consolidated balance sheet data presented below under the heading "Consolidated Balance Sheet Data" as of December 31, 2011 and 2012 have been derived from our audited consolidated financial statements included elsewhere in this Report. The selected consolidated financial data presented below under the headings "Consolidated Statements of Operations Data" for the years ended December 31, 2008 and 2009 and under "Consolidated Balance Sheet Data" as of December 31, 2008, 2009 and 2010 have been derived from our consolidated financial statements not included in this Report. The historical results presented below are not necessarily indicative of the financial results to be expected for future periods.

	2008	Year Ended December 31,			2012
		2009	2010	2011	
		(in thousands, except share and per share data)			
<b>Consolidated Statements of Operations Data:</b>					
<b>Revenues:</b>					
ETF advisory fees	\$ 21,643	\$ 20,812	\$ 40,567	\$ 64,366	\$ 84,024
Other income	1,968	1,283	1,045	794	774
Total revenues	23,611	22,095	41,612	65,160	84,798
<b>Expenses:</b>					
Compensation and benefits	20,338	18,943	19,193	19,634	23,233
Fund management and administration	14,772	13,387	14,286	19,882	23,020
Marketing and advertising	5,875	2,762	3,721	4,475	5,363
Sales and business development	3,642	2,495	2,730	3,603	3,586
Professional and consulting fees	1,871	1,780	3,779	4,307	4,603
Occupancy, communications and equipment	1,564	1,087	1,118	1,127	1,419
Depreciation and amortization	337	360	314	267	307
Third party sharing arrangements	(320)	89	2,296	5,651	5,468
Other	2,577	2,420	1,724	2,243	2,976
ETF shareholder proxy					3,264
Litigation, net				150	176
Exchange listing and offering				729	353
Total expenses	50,656	43,323	49,161	62,068	73,768
Income/(loss) before provision for income taxes	(27,045)	(21,228)	(7,549)	3,092	11,030
Provision for income taxes					
Tax benefit					
<b>Net income/(loss)</b>	\$ (27,045)	\$ (21,228)	\$ (7,549)	\$ 3,092	\$ 11,030
Net income/(loss) per share - basic	\$ (0.27)	\$ (0.21)	\$ (0.07)	\$ 0.03	\$ 0.09
Net income/(loss) per share - diluted	\$ (0.27)	\$ (0.21)	\$ (0.07)	\$ 0.02	\$ 0.08
Weighted average common shares - basic:	100,236	103,397	111,981	114,132	122,138
Weighted average common shares - diluted:	100,236	103,397	111,981	135,539	137,968
	2008	2009	As of December 31,		2012
			(in thousands)		
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 13,275	\$ 11,476	\$ 14,233	\$ 25,630	\$ 41,246
Total assets	\$ 34,856	\$ 25,703	\$ 29,142	\$ 42,567	\$ 63,425
Total liabilities	\$ 12,800	\$ 9,675	\$ 11,907	\$ 16,714	\$ 12,365
Stockholders' equity	\$ 22,056	\$ 16,028	\$ 17,235	\$ 25,853	\$ 51,060



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### **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

#### **Executive Summary**

We were the seventh largest sponsor of ETFs in the United States based on AUM, with AUM of approximately \$18.3 billion as of December 31, 2012. An ETF is an investment fund that holds securities such as equities or bonds and/or other assets such as derivatives or commodities and that generally trades at approximately the same price as the net asset value of its underlying components over the course of the trading day. ETFs offer exposure to a wide variety of investment themes, including domestic, international and global equities, fixed income securities, currencies or commodities, as well as securities in specific industries and countries. At December 31, 2012 we offered a comprehensive family of 46 ETFs, which includes 34 international and domestic equity ETFs, five currency ETFs, five international fixed income ETFs and two alternative strategy ETFs.

Through our operating subsidiary, we provide investment advisory and other management services to the WisdomTree ETFs. In exchange for providing these services, we receive advisory fee revenues based on a percentage of the ETFs average daily net assets under management. Our expenses are predominantly related to selling, operating and marketing our ETFs. We have contracted with third parties to provide certain operational services for the ETFs.

We distribute our ETFs through all major channels within the asset management industry, including brokerage firms, registered investment advisors, institutional investors, private wealth managers and discount brokers. We do not target our ETFs for sale directly to the retail segment but rather to financial or investment advisor which act as intermediaries between the end-client and us.

Our revenues have increased substantially since we launched our ETFs in June 2006. Our revenues have grown from \$41.6 million in 2010 to a record \$84.8 million in 2012 and our financial results have improved from a net loss of \$7.5 million in 2010 to net income of \$11.0 million in 2012.

#### **Market Environment**

We have been and continue to operate in an extremely challenging and highly competitive business environment. Since the financial crises in 2008 and 2009, equity markets have generally improved; however, the markets continue to experience significant volatility due to a host of factors including underlying concerns regarding unemployment and the rate of economic recovery in the United States, the stability of European economies and their banks, and rising inflation and sustainability of growth in the emerging market countries.

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Since the end of 2009 to the end of 2012, the S&P 500, MSCI EAFE and MSCI Emerging Markets indexes increased 36%, 11% and 15%, respectively; however equity markets have fluctuated significantly during that time period. The following chart reflects the returns for the three broad based equity market indexes and our AUM:

Investment into the markets have been tepid since the financial crisis as reflected by the flows into long-term mutual funds and ETFs as indicated on the chart below:



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Despite the tepid flows, ETFs flows experienced a record \$185 billion in net inflows. In fact, over the last five years, ETFs have gathered more than 50% of the cumulative aggregate inflows of long-term mutual funds and ETFs.

While both mutual funds and ETFs have experienced inflows into fixed income products over the last 5 years, long-term mutual funds have experienced significant outflows of \$517 billion in equity products. ETFs, on the other hand, have experienced inflows of \$534 billion in equity products.

We believe this trend in equity flows is indicative that investors are favoring ETFs, rather than mutual funds, to obtain their equity exposure.

**Our Results and Other Business Highlights**

Despite a challenging economic environment, our AUM has been growing and reaching record levels each year from \$9.9 billion at the end of 2010 to \$18.3 billion at the end of 2012. Our net inflows have also been increasing during that same time period from \$3.1 billion to \$4.7 billion. We believe this trend is a result of our strong product offerings in emerging markets, new product launches to further diversify our product offering, as well as a longer track record for the funds we launched in 2006 and 2007. Our growth strategy seeks to increase our market share of ETF industry inflows through continued product diversification and execution of our marketing and sales strategies.

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The following charts reflect certain key operating statistics of our business for the periods indicated:

*Public Offerings*

In February 2012, we completed a public offering of our common stock at \$5.61 per share. We sold 1 million shares and certain of our stockholders sold 15.5 million shares. Proceeds to us, less commissions and other direct selling expenses, were approximately \$4.3 million and were used for working capital and other general corporate purposes. In November 2012, we completed a second public offering of our common stock where certain of our existing stock holders sold 27.8 million shares at \$6.10 per share. We did not sell any stock in the second offering and we did not receive any proceeds from the sale of shares of our common stock by the selling stockholders. We incurred \$0.4 million in expenses in 2012 related to the November offering.

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### *Price Competition in Market Capitalization Weighted Index ETFs*

There has been significant price competition in certain broad based market capitalization weighted index ETFs sponsored by Charles Schwab, Vanguard and BlackRock's iShares. We believe one of our key competitive strengths is that our equity ETFs are based on our own fundamentally weighted index methodology, not market capitalization weighted indexes provided by third parties such as MSCI, S&P Dow Jones or FTSE. This key competitive strength is apparent when comparing the after fee performance of our equity ETFs against their competitive market capitalization weighted indexes, which do not charge a fee. Using our approach, 72% of the \$15.4 billion invested in our 34 equity ETFs were in funds that, since their respective inceptions through December 31, 2012, outperformed their market capitalization weighted or competitive benchmarks. Similarly, 23 of our 34 equity ETFs have outperformed their market capitalization weighted or competitive benchmarks over the same period. That is, even after fees, we believe our fundamentally weighted approach can provide investors with better risk-adjusted returns over the long term. We believe our approach differentiates us from our competitors and helps to shield us from the intense price competition occurring in broad based market capitalization weighted index ETFs.

### *Patent Litigation*

On December 1, 2011, Research Affiliates, LLC filed suit against us in the United States District Court for the Central District of California, alleging that the fundamentally weighted investment methodology we employ infringes three of plaintiff's patents, and seeking both unspecified monetary damages in an amount to be determined and an injunction to prevent further infringement. On November 7, 2012, Research Affiliates, LLC agreed to withdraw its patent infringement suit against us and we agreed to withdraw our counterclaims and entered into a settlement agreement. Under the settlement, all parties exchanged releases for all existing claims. The other material terms of the settlement are as follows:

Research Affiliates agreed not to sue us for any future claims arising under any current patents held by Research Affiliates, as well as any future patents relating to fundamentally-weighted indexes and strategies that may issue under existing or future patent applications that may be filed by Research Affiliates within the next eight years, subject to reduction by up to three years if Research Affiliates is acquired. The covenant not to sue extends to our service providers and customers in connection with our products and services.

We have agreed not to sue Research Affiliates for any future claims arising under any current patents held by us, as well as any future patents relating to fundamentally-weighted indexes and strategies that may issue under existing or future patent applications that may be filed by us within the next eight years, subject to reduction by up to three years if we are acquired. The covenant not to sue extends to service providers and customers of Research Affiliates in connection with Research Affiliates' products and services.

Research Affiliates and we have agreed that the covenants not to sue do not include a right under each party's patents to copy the other party's methodologies. Research Affiliates and we have further agreed that it is not copying if Research Affiliates introduces an index or strategy that uses at least three fundamental factors to weight its indexes and they are not predominantly dividend- or earnings-weighted, or we introduce an index or strategy that is weighted by less than three fundamental factors.

The parties also agreed not to challenge the other party's patents or patent applications.

Research Affiliates agreed to a one-time payment of \$0.7 million to us. We and the other defendants were not required to make any current or future payments to Research Affiliates.

All other terms of the settlement are confidential and the settlement will not affect the current methodologies and fees for WisdomTree ETFs.

Our insurance carrier funded a significant majority of the cost of defending this patent infringement lawsuit. The net amount of expense, taking into account legal defense and other associated costs we paid to defend ourselves less any amounts our insurance carrier reimbursed us and the receipt of a settlement payment from Research Affiliates, we incurred was \$0.2 million in both 2011 and 2012.



**Table of Contents***Expiration of Joint Venture with BNY Mellon*

In 2008, we entered into a mutual participation agreement with Mellon Capital and Dreyfus, wholly owned by BNY Mellon, in which we agreed to collaborate in developing currency and fixed income ETFs under the WisdomTree Trust. Under the agreement, we contributed our expertise in operating the ETFs, sales, marketing and research, and BNY Mellon contributed sub-advisory, fund administration and accounting services for these collaborated ETFs. All third-party costs and profits and losses are shared equally. This agreement was to expire in March 2013.

On October 25, 2012, we agreed to terminate the agreement on December 31, 2012 and entered into a new fee arrangement with BNY Mellon effective January 1, 2013. Under the new arrangement, BNY Mellon will continue to serve as portfolio manager to these ETFs under more traditional sub-advisory economic terms, which is expected to result in improved gross margins on these ETFs at current asset levels.

*ETF shareholder proxy solicitation*

In the second quarter of 2012, we initiated the solicitation of proxies from the WisdomTree ETF shareholders to obtain approval for us to continue as investment advisor for the WisdomTree ETFs if our largest stockholder, Michael Steinhardt, who beneficially owned 25.5% of our common stock prior to the second public offering discussed above under Management's Discussion and Analysis of Financial Condition and Results of Operations Our Results and Other Business Highlights Public Offerings, were to sell or otherwise transfer shares of our common stock resulting in his beneficial ownership falling below 25%. The Investment Company Act presumes a change in control of our Company if Mr. Steinhardt's ownership fell below the 25% threshold, which would trigger an automatic termination of our investment advisory agreements with the WisdomTree Trust and require approval of the WisdomTree ETF shareholders to continue the agreements. We also sought approval from the WisdomTree ETF shareholders to allow us to change sub-advisors in the future without further shareholder approval. We completed the proxy solicitation and obtained the required approvals in August 2012. No further shareholder approval was required when, in November 2012, Mr. Steinhardt's ownership fell below 25% in connection with a secondary offering we conducted. We incurred \$3.3 million in proxy related expenses in 2012.

*NASDAQ Listing*

On July 26, 2011, we listed our common stock on The NASDAQ Global Market under symbol WETF. Prior to the listing, our common stock was traded on the Pink OTC Market under the symbol WSDT. We incurred \$0.7 million in expenses related to this listing in 2011.

**Components of Revenue***ETF advisory fees*

The majority of our revenues are comprised of advisory fees we earn from our ETFs. We earn this revenue based on a percentage of the average daily value of AUM. Our average daily value of AUM is the average of the daily aggregate AUM of our ETFs as determined by the then current net asset value (as defined under Investment Company Act Rule 2a-4) of such ETFs as of the close of business each day. Our fee percentages for individual ETFs range from 0.28% to 0.95%. A summary of the average advisory fee we earn and AUM as of December 31, 2012 by asset class is as follows:

	Average Advisory Fee	AUM (in billions)
Emerging Markets Equity ETFs	0.67%	\$ 7.3
U.S. Equity ETFs	0.35%	\$ 4.4
International Developed Equity ETFs	0.54%	\$ 3.8
International Fixed Income ETFs	0.55%	\$ 2.1
Currency ETFs	0.50%	\$ 0.6
Alternative Strategy ETFs	0.95%	\$ 0.1
<b>Total Average Advisory Fee and AUM</b>	<b>0.54%</b>	<b>\$ 18.3</b>

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We determine the appropriate advisory fee to charge for our ETFs based on the cost of operating each particular ETF taking into account the types of securities the ETFs will hold, fees third party service providers will charge us for operating the ETFs and our competitors' fees for similar ETFs. Generally, our actively managed ETFs, such as our Alternative Strategy and Currency ETFs, along with our Emerging Market ETFs, are priced higher than our other index based ETFs as the former are more cost