

VIRTUS INVESTMENT PARTNERS, INC.  
Form 10-Q  
October 30, 2015

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

FORM 10-Q

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

For the quarterly period ended September 30, 2015

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: 001-10994

VIRTUS INVESTMENT PARTNERS, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)  
100 Pearl St., Hartford, CT 06103  
(Address of principal executive offices) (Zip Code)  
(800) 248-7971  
(Registrant's telephone number, including area code)

95-4191764  
(I.R.S. Employer  
Identification 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer  Accelerated filer

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

The number of shares outstanding of the registrant's common stock was 8,667,666 as of October 22, 2015.

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“We,” “us,” “our,” the “Company” and “Virtus” as used in this Quarterly Report on Form 10-Q, refer to Virtus Investment Partners, Inc., a Delaware corporation, and its subsidiaries.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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Virtus Investment Partners, Inc.  
Condensed Consolidated Balance Sheets  
(Unaudited)

|   | September 30,<br>2015 | December 31,<br>2014 |
|---|-----------------------|----------------------|
| (\$ in thousands, except share data)  |                       |                      |
| Assets:   |                       |                      |
| Cash and cash equivalents   | \$ 126,470            | \$ 202,847           |
| Investments   | 55,225                | 63,448               |
| Accounts receivable, net  | 40,107                | 49,721               |
| Assets of consolidated sponsored investment products  |                       |                      |
| Cash of consolidated sponsored investment products  | 2,257                 | 457                  |
| Cash pledged or on deposit of consolidated sponsored investment products  | 14,475                | 8,230                |
| Investments of consolidated sponsored investment products   | 311,429               | 236,652              |
| Other assets of consolidated sponsored investment products  | 10,494                | 6,960                |
| Assets of consolidated investment product   |                       |                      |
| Cash equivalents of consolidated investment product   | 120                   | —                    |
| Investments and other assets of consolidated investment product   | 131,882               | —                    |
| Furniture, equipment, and leasehold improvements, net   | 9,042                 | 7,193                |
| Intangible assets, net  | 41,672                | 41,783               |
| Goodwill  | 6,649                 | 5,260                |
| Deferred taxes, net   | 59,700                | 60,162               |
| Other assets  | 17,241                | 16,060               |
| Total assets  | \$ 826,763            | \$ 698,773           |
| Liabilities and Equity  |                       |                      |
| Liabilities:  |                       |                      |
| Accrued compensation and benefits   | \$ 38,206             | \$ 54,815            |
| Accounts payable and accrued liabilities  | 39,739                | 31,627               |
| Dividends payable   | 4,258                 | 4,270                |
| Other liabilities   | 12,805                | 9,082                |
| Liabilities of consolidated sponsored investment products   | 29,849                | 12,556               |
| Liabilities of consolidated investment product  |                       |                      |
| Debt of consolidated investment product   | 9,140                 | —                    |
| Securities purchased payable of consolidated investment product   | 103,541               | —                    |
| Total liabilities   | 237,538               | 112,350              |
| Commitments and Contingencies (Note 12)   |                       |                      |
| Redeemable noncontrolling interests   | 49,895                | 23,071               |
| Equity:   |                       |                      |
| Equity attributable to stockholders:  |                       |                      |
| Common stock, \$0.01 par value, 1,000,000,000 shares authorized; 9,611,575 shares issued and 8,667,666 shares outstanding at September 30, 2015 and 9,551,274 shares issued and 8,975,833 shares outstanding at December 31, 2014 | 96                    | 96                   |
| Additional paid-in capital  | 1,142,182             | 1,148,908            |
| Accumulated deficit   | (479,051)             | (507,521)            |
| Accumulated other comprehensive loss  | (902)                 | (242)                |
| Treasury stock, at cost, 943,909 and 575,441 shares at September 30, 2015 and December 31, 2014, respectively   | (122,699)             | (77,699)             |
| Total equity attributable to stockholders   | 539,626               | 563,542              |
| Noncontrolling interests  | (296)                 | (190)                |

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|                              |            |            |
|------------------------------|------------|------------|
| Total equity                 | 539,330    | 563,352    |
| Total liabilities and equity | \$ 826,763 | \$ 698,773 |

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

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Virtus Investment Partners, Inc.  
Condensed Consolidated Statements of Operations  
(Unaudited)

|   | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |           |
|---|-------------------------------------|------------|------------------------------------|-----------|
|   | 2015                                | 2014       | 2015                               | 2014      |
| (\$ in thousands, except per share data)  |                                     |            |                                    |           |
| Revenues  |                                     |            |                                    |           |
| Investment management fees  | \$64,891                            | \$78,960   | \$204,254                          | \$225,289 |
| Distribution and service fees   | 15,587                              | 23,671     | 52,820                             | 70,049    |
| Administration and transfer agent fees  | 11,614                              | 14,804     | 37,233                             | 41,819    |
| Other income and fees   | 283                                 | 406        | 1,555                              | 1,304     |
| Total revenues  | 92,375                              | 117,841    | 295,862                            | 338,461   |
| Operating Expenses  |                                     |            |                                    |           |
| Employment expenses   | 33,504                              | 35,246     | 102,719                            | 105,756   |
| Distribution and other asset-based expenses   | 21,717                              | 29,180     | 69,900                             | 96,139    |
| Other operating expenses  | 11,165                              | 11,288     | 51,403                             | 34,952    |
| Other operating expenses of consolidated sponsored investment products                                | 1,120                               | 1,246      | 2,895                              | 2,374     |
| Restructuring and severance   | —                                   | 294        | —                                  | 294       |
| Depreciation and other amortization   | 910                                 | 713        | 2,562                              | 2,040     |
| Amortization expense  | 837                                 | 947        | 2,511                              | 2,851     |
| Total operating expenses  | 69,253                              | 78,914     | 231,990                            | 244,406   |
| Operating Income  | 23,122                              | 38,927     | 63,872                             | 94,055    |
| Other Income (Expense)  |                                     |            |                                    |           |
| Realized and unrealized (loss) gain on investments, net   | (2,082                              | ) (1,039   | ) (1,194                           | ) 1,712   |
| Realized and unrealized (loss) gain on investments of consolidated sponsored investment products, net | (17,619                             | ) (5,330   | ) (18,271                          | ) 1,150   |
| Realized and unrealized loss on investments of consolidated investment product, net                   | (764                                | ) —        | (764                               | ) —       |
| Other income of consolidated investment product, net  | 43                                  | —          | 43                                 | —         |
| Other income, net   | 141                                 | 233        | 823                                | 573       |
| Total other (expense) income, net   | (20,281                             | ) (6,136   | ) (19,363                          | ) 3,435   |
| Interest Income (Expense)   |                                     |            |                                    |           |
| Interest expense  | (138                                | ) (149     | ) (382                             | ) (412    |
| Interest and dividend income  | 324                                 | 326        | 906                                | 1,053     |
| Interest and dividend income of investments of consolidated sponsored investment products             | 2,898                               | 2,222      | 8,320                              | 4,734     |
| Interest income of investments of consolidated investment product                                     | 41                                  | —          | 41                                 | —         |
| Total interest income, net  | 3,125                               | 2,399      | 8,885                              | 5,375     |
| Income Before Income Taxes  | 5,966                               | 35,190     | 53,394                             | 102,865   |
| Income tax expense (benefit)  | 9,669                               | (1,805     | ) 28,360                           | 24,311    |
| Net (Loss) Income   | (3,703                              | ) 36,995   | 25,034                             | 78,554    |
| Noncontrolling interests  | 3,054                               | 345        | 3,436                              | 267       |
| Net (Loss) Income Attributable to Common Stockholders   | \$(649                              | ) \$37,340 | \$28,470                           | \$78,821  |
| (Loss) Earnings per Share—Basic   | \$(0.07                             | ) \$4.10   | \$3.21                             | \$8.65    |
| (Loss) Earnings per Share—Diluted   | \$(0.07                             | ) \$4.02   | \$3.15                             | \$8.46    |
| Cash Dividends Declared per Share   | \$0.45                              | \$0.45     | \$1.35                             | \$0.90    |
| Weighted Average Shares Outstanding—Basic (in thousands)  | 8,775                               | 9,096      | 8,876                              | 9,115     |

Weighted Average Shares Outstanding—Diluted (in thousands) 8,775 9,279 9,039 9,322

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



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Virtus Investment Partners, Inc.  
 Condensed Consolidated Statements of Comprehensive Income  
 (Unaudited)

|   | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |          |
|---|-------------------------------------|------------|------------------------------------|----------|
|   | 2015                                | 2014       | 2015                               | 2014     |
| (\$ in thousands)   |                                     |            |                                    |          |
| Net (Loss) Income   | \$(3,703                            | ) \$36,995 | \$25,034                           | \$78,554 |
| Other comprehensive income (loss), net of tax:  |                                     |            |                                    |          |
| Foreign currency translation adjustment, net of tax of (\$28) and \$56 for the three months ended September 30, 2015 and 2014, respectively and \$167 and \$49 for the nine months ended September 30, 2015 and 2014, respectively                  | 49                                  | (93        | ) (271                             | ) (80    |
| Unrealized (loss) gain on available-for-sale securities, net of tax of (\$35) and \$60 for the three months ended September 30, 2015 and 2014, respectively and \$26 and \$(55) for the nine months ended September 30, 2015 and 2014, respectively | (290                                | ) (95      | ) (389                             | ) 90     |
| Other comprehensive (loss) income   | (241                                | ) (188     | ) (660                             | ) 10     |
| Comprehensive (loss) income   | (3,944                              | ) 36,807   | 24,374                             | 78,564   |
| Comprehensive loss attributable to noncontrolling interests   | 3,054                               | 345        | 3,436                              | 267      |
| Comprehensive (Loss) Income Attributable to Common Stockholders   | \$(890                              | ) \$37,152 | \$27,810                           | \$78,831 |

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

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Virtus Investment Partners, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

|  | Nine Months Ended<br>September 30, |           |
|--|------------------------------------|-----------|
|  | 2015                               | 2014      |
| (\$ in thousands)  |                                    |           |
| <b>Cash Flows from Operating Activities:</b>   |                                    |           |
| Net income   | \$25,034                           | \$78,554  |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities:              |                                    |           |
| Depreciation expense, intangible asset and other amortization  | 5,241                              | 5,055     |
| Stock-based compensation   | 9,166                              | 7,021     |
| Excess tax benefits from stock-based compensation  | (1,515)                            | (25,089)  |
| Amortization of deferred commissions   | 6,903                              | 14,032    |
| Payments of deferred commissions   | (2,585)                            | (11,761)  |
| Equity in earnings of equity method investments, net   | (804)                              | (295)     |
| Realized and unrealized losses (gains) on trading securities, net  | 1,490                              | (1,712)   |
| Realized and unrealized losses (gains) on investments of consolidated sponsored investment products, net | 21,611                             | (1,247)   |
| Realized and unrealized losses on investments of consolidated investment product, net                    | 764                                | —         |
| Sales of trading securities, net   | 9,945                              | 24,996    |
| Purchases of investments by consolidated sponsored investment products, net                              | (96,222)                           | (184,584) |
| Sales of securities sold short by consolidated sponsored investment products, net                        | 3,534                              | 10,461    |
| Purchases of investments by consolidated investment product, net   | (29,085)                           | —         |
| Deferred taxes, net  | 655                                | 4,826     |
| Changes in operating assets and liabilities:   |                                    |           |
| Cash pledged or on deposit of consolidated sponsored investment products                                 | (6,912)                            | (12,492)  |
| Accounts receivable, net and other assets  | 4,101                              | (17,776)  |
| Other assets of consolidated sponsored investment products   | (1,649)                            | (1,502)   |
| Accrued compensation and benefits, accounts payable, accrued liabilities and other liabilities           | (8,102)                            | 8,424     |
| Liabilities of consolidated sponsored investment products  | 1,499                              | 801       |
| Liabilities and other assets of consolidated investment product, net                                     | (20)                               | —         |
| Net cash used in operating activities  | (56,951)                           | (102,288) |
| <b>Cash Flows from Investing Activities:</b>   |                                    |           |
| Capital expenditures   | (3,723)                            | (1,814)   |
| Change in cash and cash equivalents of consolidated sponsored investment products due to deconsolidation | —                                  | (366)     |
| Asset acquisitions and purchases of other investments  | (1,617)                            | (5,000)   |
| Cash acquired in business combination  | 89                                 | —         |
| Purchases of available-for-sale securities   | (168)                              | (260)     |
| Net cash used in investing activities  | (5,419)                            | (7,440)   |
| <b>Cash Flows from Financing Activities:</b>   |                                    |           |
| Borrowings of proceeds from short sales by consolidated sponsored investment products                    | 831                                | 1,200     |

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|   |           |   |           |   |
|---|-----------|---|-----------|---|
| Payments on borrowings by consolidated sponsored investment products  | (164      | ) | —         | ) |
| Borrowings of debt of consolidated investment product   | 9,140     |   | —         |   |
| Dividends paid  | (12,146   | ) | (4,104    | ) |
| Repurchases of common shares  | (45,000   | ) | (26,257   | ) |
| Proceeds from exercise of stock options   | 70        |   | 660       |   |
| Taxes paid related to net share settlement of restricted stock units  | (5,080    | ) | (9,512    | ) |
| Excess tax benefits from stock-based compensation   | 1,515     |   | 25,089    |   |
| Contributions of noncontrolling interests, net  | 38,747    |   | 24,871    |   |
| Net cash (used in) provided by financing activities   | (12,087   | ) | 11,947    | ) |
| Net decrease in cash and cash equivalents   | (74,457   | ) | (97,781   | ) |
| Cash and cash equivalents, beginning of period  | 203,304   |   | 271,545   |   |
| Cash and Cash Equivalents, End of Period  | \$128,847 |   | \$173,764 |   |
| Non-Cash Investing Activities:  |           |   |           |   |
| Change in accrual for capital expenditures  | \$(313    | ) | \$97      | ) |
| Investment in acquired business   | \$4,800   |   | \$—       |   |
| Non-Cash Financing Activities:  |           |   |           |   |
| Decrease to noncontrolling interest due to consolidation (deconsolidation) of consolidated sponsored investment products, net | \$(8,640  | ) | \$(44,613 | ) |
| Dividends payable   | \$4,258   |   | \$4,229   |   |

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

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Virtus Investment Partners, Inc.  
Condensed Consolidated Statements of Changes in Equity  
(Unaudited)

| (\$ in thousands except per share data)                          | Common Stock |           | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Treasury Stock |            | Total Attributed To Stockholders | Non-controlling Interests | Total Equity | Redeemable Non-controlling Interests |
|--|--------------|-----------|----------------------------|---------------------|---|----------------|------------|----------------------------------|---------------------------|--------------|--------------------------------------|
|  | Shares       | Par Value |                            |                     |   | Shares         | Amount     |                                  |                           |              |                                      |
| Balances at December 31, 2013                                    | 9,105,521    | \$95      | \$1,135,644                | \$(605,221)         | \$(150)                                       | 350,000        | \$(37,438) | \$492,930                        | \$(62)                    | \$492,868    | \$42                                 |
| Net income (loss)  | —            | —         | —                          | 78,821              | —   | —              | —          | 78,821                           | (84)                      | 78,737       | (18)                                 |
| Net unrealized gain on securities available-for-sale             | —            | —         | —                          | —                   | 90  | —              | —          | 90                               | —                         | 90           | —                                    |
| Foreign currency translation adjustments                         | —            | —         | —                          | —                   | (80)  | —              | —          | (80)                             | —                         | (80)         | —                                    |
| Activity of noncontrolling interests, net                        | —            | —         | —                          | —                   | —   | —              | —          | —                                | —                         | —            | (19)                                 |
| Cash dividends declared (\$0.90 per common share)                | —            | —         | (8,333)                    | —                   | —   | —              | —          | (8,333)                          | —                         | (8,333)      | —                                    |
| Repurchases of common shares                                     | (136,874)    | —         | —                          | —                   | —   | 136,874        | (26,257)   | (26,257)                         | —                         | (26,257)     | —                                    |
| Issuance of common shares related to employee stock transactions | 90,731       | —         | 1,224                      | —                   | —   | —              | —          | 1,224                            | —                         | 1,224        | —                                    |
| Taxes paid on stock-based compensation                           | —            | —         | (9,512)                    | —                   | —   | —              | —          | (9,512)                          | —                         | (9,512)      | —                                    |
| Stock-based compensation   | —            | —         | 6,604                      | —                   | —   | —              | —          | 6,604                            | —                         | 6,604        | —                                    |
| Excess tax benefits from stock-based compensation                | —            | —         | 25,089                     | —                   | —   | —              | —          | 25,089                           | —                         | 25,089       | —                                    |
| Balances at September 30, 2014                                   | 9,059,378    | \$95      | \$1,150,716                | \$(526,400)         | \$(140)                                       | 486,874        | \$(63,695) | \$560,576                        | \$(146)                   | \$560,430    | \$22                                 |
| Balances at December 31, 2014                                    | 8,975,833    | \$96      | \$1,148,908                | \$(507,521)         | \$(242)                                       | 575,441        | \$(77,699) | \$563,542                        | \$(190)                   | \$563,352    | \$23                                 |
| Net income (loss)  | —            | —         | —                          | 28,470              | —   | —              | —          | 28,470                           | (106)                     | 28,364       | (3,3)                                |
|  | —            | —         | —                          | —                   | (389)   | —              | —          | (389)                            | —                         | (389)        | —                                    |

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|  |            |      |             |             |         |         |             |           |         |           |          |          |
|--|------------|------|-------------|-------------|---------|---------|-------------|-----------|---------|-----------|----------|----------|
| Net unrealized loss on securities available-for-sale             |            |      |             |             |         |         |             |           |         |           |          |          |
| Foreign currency translation adjustments                         | —          | —    | —           | —           | (271 )  | —       | —           | (271 )    | —       | (271 )    | —        | —        |
| Activity of noncontrolling interests, net                        | —          | —    | —           | —           | —       | —       | —           | —         | —       | —         | —        | 30,000   |
| Cash dividends declared (\$1.35 per common share)                | —          | —    | (12,136 )   | —           | —       | —       | —           | (12,136 ) | —       | (12,136 ) | —        | —        |
| Repurchases of common shares                                     | (368,468 ) | —    | —           | —           | —       | 368,468 | (45,000 )   | (45,000 ) | —       | (45,000 ) | —        | —        |
| Issuance of common shares related to employee stock transactions | 60,301     | —    | 796         | —           | —       | —       | —           | 796       | —       | 796       | —        | —        |
| Taxes paid on stock-based compensation                           | —          | —    | (5,080 )    | —           | —       | —       | —           | (5,080 )  | —       | (5,080 )  | —        | —        |
| Stock-based compensation   | —          | —    | 8,656       | —           | —       | —       | —           | 8,656     | —       | 8,656     | —        | —        |
| Excess tax benefits from stock-based compensation                | —          | —    | 1,038       | —           | —       | —       | —           | 1,038     | —       | 1,038     | —        | —        |
| Balances at September 30, 2015                                   | 8,667,666  | \$96 | \$1,142,182 | \$(479,051) | \$(902) | 943,909 | \$(122,699) | \$539,626 | \$(296) | \$539,330 | \$49,000 | \$49,000 |

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

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Virtus Investment Partners, Inc.

Notes to Condensed Consolidated Financial Statements  
(Unaudited)

1. Organization and Business

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

The Company provides investment management and related services to individuals and institutions throughout the United States of America. The Company’s retail investment management services are provided to individuals through products consisting of open-end mutual funds, closed-end funds, variable insurance funds, exchange traded funds (“ETFs”) and separately managed accounts. Institutional investment management services are provided primarily to corporations, multi-employer retirement funds, employee retirement systems, foundations, endowments and subadvisory accounts.

2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, these financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the Company’s financial condition and results of operations. Operating results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. We have reclassified certain amounts in prior-period financial statements to conform to the current period's presentation.

The condensed consolidated financial statements include the accounts of the Company, its subsidiaries and sponsored investment products in which it has a controlling financial interest, referred to as consolidated sponsored investment products or consolidated investment product. The Company is generally considered to have a controlling financial interest when it owns a majority of the voting interest in an entity or otherwise has the power to govern the financial and operating policies of the subsidiary. See Notes 13, 14 and 15 for additional information related to the consolidation of sponsored investment products and the investment product. Intercompany accounts and transactions have been eliminated.

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

These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014 filed with the Securities and Exchange Commission. The Company’s significant accounting policies, which have been consistently applied, are summarized in the 2014 Annual Report on Form 10-K. New Accounting Standards

In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2015-03, Simplifying the Presentation of Debt Issuance Costs (“ASU2015-3”), which changes the presentation of debt issuance costs in the balance sheet. The new guidance requires that debt issuance costs be presented as a deduction from the carrying amount of the related debt rather than being presented as an asset. Amortization of debt issuance costs will continue to be reported as interest expense. In August 2015, the FASB issued ASU 2015-15 to amend ASU 2015-03

to address line-of-credit agreements. ASU 2015-15 allows entities to present debt issuance costs related to line-of-credit agreements as an asset and amortize deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any

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outstanding borrowings. The new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2015 and requires retrospective application for each prior period presented. Early adoption is permitted for financial statements that have not been previously issued. This standard is not expected to have a material impact on the Company's financial statements.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis ("ASU 2015-02"). This standard modifies existing consolidation guidance for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. ASU 2015-02 is effective for fiscal years and interim periods within those years beginning after December 15, 2015 and requires either a retrospective or a modified retrospective approach to adoption. Early adoption is permitted. The Company is currently evaluating the potential impact of this standard on its financial statements, as well as the available transition methods.

In August 2014, the FASB issued ASU No. 2014-13, Measuring the Financial Assets and Financial Liabilities of a Consolidated Collateralized Financing Entity ("CFE") ("ASU 2014-13"). This new guidance requires reporting entities to use the more observable of the fair value of the financial assets or the financial liabilities to measure the financial assets and the financial liabilities of a CFE when a CFE is initially consolidated. It permits entities to make an accounting policy election to apply this same measurement approach after initial consolidation or to apply other GAAP to account for the consolidated CFE's financial assets and financial liabilities. It also prohibits all entities from electing to use the fair value option in ASC 825, Financial Instruments, to measure either the financial assets or financial liabilities of a consolidated CFE that is within the scope of this issue. This guidance is effective for fiscal years beginning after December 15, 2015 and interim periods therein. Early adoption is permitted using a modified retrospective transition approach as described in the pronouncement. The Company has not yet adopted ASU 2014-13 and is currently evaluating the impact ASU 2014-13 is expected to have on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). ASU 2014-09 provides a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. Companies may use either a full retrospective or a modified retrospective approach. In July 2015, the FASB confirmed a deferral of the effective date by one year, with early adoption on the original effective date permitted. As deferred, ASU 2014-09 is effective for the first interim period within annual reporting periods beginning after December 15, 2017 with early adoption permitted. The Company has not yet adopted ASU 2014-09 and is currently evaluating the impact ASU 2014-09 is expected to have on its consolidated financial statements.

### 3. Intangible Assets, Net

Intangible assets, net are summarized as follows:

|                                       | September 30,<br>2015 | December 31,<br>2014 |
|---------------------------------------|-----------------------|----------------------|
| (\$ in thousands)                     |                       |                      |
| Definite-lived intangible assets:     |                       |                      |
| Investment contracts                  | \$158,747             | \$158,747            |
| Accumulated amortization              | (151,891)             | (149,380)            |
| Definite-lived intangible assets, net | 6,856                 | 9,367                |
| Indefinite-lived intangible assets    | 34,816                | 32,416               |
| Total intangible assets, net          | \$41,672              | \$41,783             |



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Activity in intangible assets, net is as follows:

|                              | Nine Months Ended September<br>30, |          |
|------------------------------|------------------------------------|----------|
|                              | 2015                               | 2014     |
| (\$ in thousands)            |                                    |          |
| Intangible assets, net       |                                    |          |
| Balance, beginning of period | \$41,783                           | \$44,633 |
| Additions                    | 2,400                              | 1,075    |
| Amortization                 | (2,511                             | ) (2,998 |
| Balance, end of period       | \$41,672                           | \$42,710 |

## 4. Investments

Investments consist primarily of investments in our sponsored mutual funds. The Company's investments, excluding the assets of consolidated sponsored investment products discussed in Note 13 and the assets of the consolidated investment product discussed in Note 14, at September 30, 2015 and December 31, 2014 were as follows:

|                                     | September 30,<br>2015 | December 31,<br>2014 |
|-------------------------------------|-----------------------|----------------------|
| (\$ in thousands)                   |                       |                      |
| Marketable securities               | \$40,136              | \$50,251             |
| Equity method investments           | 9,194                 | 7,209                |
| Nonqualified retirement plan assets | 4,970                 | 5,063                |
| Other investments                   | 925                   | 925                  |
| Total investments                   | \$55,225              | \$63,448             |

## Marketable Securities

The Company's marketable securities consist of both trading (including securities held by a broker-dealer affiliate) and available-for-sale securities. The composition of the Company's marketable securities is summarized as follows:

September 30, 2015

|                             | Cost     | Unrealized<br>Loss | Unrealized<br>Gain | Fair<br>Value |
|-----------------------------|----------|--------------------|--------------------|---------------|
| (\$ in thousands)           |          |                    |                    |               |
| Trading:                    |          |                    |                    |               |
| Sponsored funds             | \$32,079 | \$(1,829           | ) \$288            | \$30,538      |
| Equity securities           | 7,236    | (648               | ) 57               | 6,645         |
| Available-for-sale:         |          |                    |                    |               |
| Sponsored closed-end funds  | 3,297    | (344               | ) —                | 2,953         |
| Total marketable securities | \$42,612 | \$(2,821           | ) \$345            | \$40,136      |

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December 31, 2014

|                             | Cost     | Unrealized<br>Loss | Unrealized<br>Gain | Fair<br>Value |
|-----------------------------|----------|--------------------|--------------------|---------------|
| (\$ in thousands)           |          |                    |                    |               |
| Trading:                    |          |                    |                    |               |
| Sponsored funds             | \$39,079 | \$(1,190           | ) \$423            | \$38,312      |
| Equity securities           | 8,421    | —                  | 319                | 8,740         |
| Available-for-sale:         |          |                    |                    |               |
| Sponsored closed-end funds  | 3,129    | (163               | ) 233              | 3,199         |
| Total marketable securities | \$50,629 | \$(1,353           | ) \$975            | \$50,251      |

For the three and nine months ended September 30, 2015, the Company recognized a net realized loss of \$0.5 million and a net realized gain of \$0.4 million, respectively, on trading securities, and for the three and nine months ended September 30, 2014, the Company recognized a net realized gain of \$1.7 million and \$6.2 million, respectively.

## 5. Fair Value Measurements

The Company's assets and liabilities measured at fair value on a recurring basis, excluding the assets and liabilities of consolidated sponsored investment products and the consolidated investment product discussed in Notes 13 and 14, respectively as of September 30, 2015 and December 31, 2014 by fair value hierarchy level were as follows:

September 30, 2015

|   | Level 1   | Level 2 | Level 3 | Total     |
|---|-----------|---------|---------|-----------|
| (\$ in thousands)                         |           |         |         |           |
| Assets                                    |           |         |         |           |
| Cash equivalents                          | \$80,950  | \$—     | \$—     | \$80,950  |
| Marketable securities trading:            |           |         |         |           |
| Sponsored funds                           | 30,538    | —       | —       | 30,538    |
| Equity securities                         | 6,645     | —       | —       | 6,645     |
| Marketable securities available-for-sale: |           |         |         |           |
| Sponsored closed-end funds                | 2,953     | —       | —       | 2,953     |
| Other investments:                        |           |         |         |           |
| Nonqualified retirement plan assets       | 4,970     | —       | —       | 4,970     |
| Total assets measured at fair value       | \$126,056 | \$—     | \$—     | \$126,056 |

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December 31, 2014

|   | Level 1   | Level 2 | Level 3 | Total     |
|---|-----------|---------|---------|-----------|
| (\$ in thousands)                         |           |         |         |           |
| Assets                                    |           |         |         |           |
| Cash equivalents                          | \$202,054 | \$—     | \$—     | \$202,054 |
| Marketable securities trading:            |           |         |         |           |
| Sponsored funds                           | 38,312    | —       | —       | 38,312    |
| Equity securities                         | 8,740     | —       | —       | 8,740     |
| Marketable securities available-for-sale: |           |         |         |           |
| Sponsored closed-end funds                | 3,199     | —       | —       | 3,199     |
| Other investments                         |           |         |         |           |
| Nonqualified retirement plan assets       | 5,063     | —       | —       | 5,063     |
| Total assets measured at fair value       | \$257,368 | \$—     | \$—     | \$257,368 |

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

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

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

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

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

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

Transfers into and out of levels are reflected when significant inputs used for the fair value measurement, including market inputs or performance attributes, become observable or unobservable or when the Company determines it has the ability, or no longer has the ability, to redeem, in the near term, certain investments that the Company values using a net asset value, or if the book value no longer represents fair value. There were no transfers between Level 1 and Level 2 during the three and nine months ended September 30, 2015 and 2014.

#### 6. Equity Transactions

During the nine months ended September 30, 2015 and 2014, the Company repurchased 368,468 and 136,874 common shares, respectively, at a weighted average price of \$122.09 and \$191.79 per share, respectively, plus transaction costs for a total cost of approximately \$45.0 million and \$26.3 million, respectively. The Company has repurchased a total of 943,909 shares of common stock at a weighted average price of \$129.95 per share plus transaction costs for a total cost of \$122.7 million under its share repurchase program. At September 30, 2015, there were 256,091 shares of common stock available to repurchase under the Company's current share repurchase program. The Board of Directors declared cash dividends of \$0.45 per share in each of the first three quarters of 2015 and the second and third quarters of 2014. Total dividends declared were \$12.1 million and \$8.3 million for the nine months ended September 30, 2015 and 2014, respectively. At September 30, 2015, dividends payable of \$4.3 million represented the third quarter dividend to be paid on November 13, 2015 to all shareholders of record on October 30, 2015.

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## 7. Accumulated Other Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss) by component for the nine months ended September 30, 2015 and 2014 were as follows:

|  | Unrealized<br>Gains<br>and (Losses)<br>on Securities<br>Available-for-<br>Sale | Foreign<br>Currency<br>Translation<br>Adjustments |          |
|--|--|---|----------|
| (\$ in thousands)  |  |   |          |
| Balance December 31, 2014  | \$(107   | )   | \$(135 ) |
| Unrealized net losses on securities available-for-sale, net of tax of \$26 | (389   | )   | — )      |
| Foreign currency translation adjustments, net of tax of \$167              | —  | (271  | ) )      |
| Amounts reclassified from accumulated other comprehensive income (loss)    | —  | —   |          |
| Net current-period other comprehensive loss                                | (389   | )   | (271 )   |
| Balance September 30, 2015   | \$(496   | )   | \$(406 ) |

|   | Unrealized<br>Gains<br>and (Losses)<br>on Securities<br>Available-for-<br>Sale | Foreign<br>Currency<br>Translation<br>Adjustments |        |
|---|--|---|--------|
| (\$ in thousands)   |  |   |        |
| Balance December 31, 2013   | \$(231   | )   | \$81 ) |
| Unrealized net gains on securities available-for-sale, net of tax of (\$55) | 90   | —   |        |
| Foreign currency translation adjustments, net of tax of \$49                | —  | (80   | ) )    |
| Amounts reclassified from accumulated other comprehensive income            | —  | —   |        |
| Net current-period other comprehensive income (loss)                        | 90   | (80   | ) )    |
| Balance September 30, 2014  | \$(141   | )   | \$1 )  |

## 8. Stock-based Compensation

The Company has an Omnibus Incentive and Equity Plan (the “Plan”) under which officers, employees and directors may be granted equity-based awards, including restricted stock units (“RSUs”), stock options and unrestricted shares of common stock. At September 30, 2015, 306,275 shares of common stock remained available for issuance of the 1,800,000 shares that were reserved for issuance under the Plan. Each RSU entitles the holder to one share of common stock when the restriction expires. RSUs generally have a term of one to three years and may be time-vested or performance-contingent. Stock options generally cliff vest after three years and have a contractual life of ten years. Stock options are granted with an exercise price equal to the fair market value of the shares at the date of grant. The fair value of each RSU is estimated using the intrinsic value method, which is based on the fair market value price on the date of grant unless it contains a performance metric that is considered a market condition. RSUs that contain a market condition are valued using a simulation valuation model. Shares that are issued upon exercise of stock options and vesting of RSUs are newly issued shares from the Plan and are not issued from treasury stock.

## Restricted Stock Units

RSU activity for the nine months ended September 30, 2015 is summarized as follows:



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|                                   | Number<br>of Shares | Weighted<br>Average<br>Grant Date<br>Fair Value |
|-----------------------------------|---------------------|---|
| Outstanding at December 31, 2014  | 179,936             | \$143.25  |
| Granted                           | 116,295             | \$134.46  |
| Forfeited                         | (493                | ) \$175.16                                      |
| Settled                           | (87,410             | ) \$102.00                                      |
| Outstanding at September 30, 2015 | 208,328             | \$155.57  |

For the nine months ended September 30, 2015 and 2014, a total of 37,488 and 50,952 RSUs, respectively, were withheld by the Company as a result of net share settlements to settle minimum employee tax withholding obligations. The Company paid \$5.1 million and \$9.5 million for the nine months ended September 30, 2015 and 2014, respectively, in minimum employee tax withholding obligations related to RSUs withheld. These net share settlements had the effect of share repurchases by the Company as they reduced the number of shares that would have been otherwise issued as a result of the vesting.

During the nine months ended September 30, 2015 and 2014, the Company granted 33,632 and 30,101 RSUs, respectively, each of which contains two performance based metrics in addition to a service condition. The two performance metrics are based on the Company's growth in operating income, as adjusted, relative to peers, over a one-year period and total shareholder return ("TSR") relative to peers over a three-year period. For the nine months ended September 30, 2015 and 2014, total stock-based compensation expense included \$1.8 million and \$0.9 million for these performance contingent RSUs, respectively.

The Company recognized total stock compensation expense of \$2.7 million and \$2.5 million, respectively, and \$9.2 million and \$7.0 million, respectively, for the three and nine months ended September 30, 2015 and 2014. As of September 30, 2015, unamortized stock-based compensation expense for unvested RSUs was \$19.3 million, with a weighted-average remaining amortization period of 1.9 years.

**Stock Options**

Stock option activity for the nine months ended September 30, 2015 is summarized as follows:

|                                   | Number<br>of Shares | Weighted<br>Average<br>Exercise Price |
|-----------------------------------|---------------------|---------------------------------------|
| Outstanding at December 31, 2014  | 162,824             | \$18.79                               |
| Granted                           | —                   | \$—                                   |
| Exercised                         | (4,675              | ) \$15.27                             |
| Forfeited                         | —                   | \$—                                   |
| Outstanding at September 30, 2015 | 158,149             | \$18.89                               |

**9. Earnings per Share**

Basic earnings per share ("EPS") excludes dilution for potential common stock issuances and is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. For the calculation of diluted EPS, the basic weighted-average number of shares is increased by the dilutive effect of RSUs and common stock options using the treasury stock method.

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The computation of basic and diluted EPS is as follows:

|  | Three Months Ended |             | Nine Months Ended |           |
|--|--------------------|-------------|-------------------|-----------|
|  | September 30,      |             | September 30,     |           |
|  | 2015               | 2014        | 2015              | 2014      |
| (\$ in thousands, except per share amounts)                              |                    |             |                   |           |
| Net (Loss) Income  | \$ (3,703          | ) \$ 36,995 | \$ 25,034         | \$ 78,554 |
| Noncontrolling interests   | 3,054              | 345         | 3,436             | 267       |
| Net (Loss) Income Attributable to Common Stockholders                    | \$ (649            | ) \$ 37,340 | \$ 28,470         | \$ 78,821 |
| Shares (in thousands):   |                    |             |                   |           |
| Basic: Weighted-average number of shares outstanding                     | 8,775              | 9,096       | 8,876             | 9,115     |
| Plus: Incremental shares from assumed conversion of dilutive instruments | —                  | 183         | 163               | 207       |
| Diluted: Weighted-average number of shares outstanding                   | 8,775              | 9,279       | 9,039             | 9,322     |
| (Loss) Earnings per Share—Basic  | \$ (0.07           | ) \$ 4.10   | \$ 3.21           | \$ 8.65   |
| (Loss) Earnings per Share—Diluted  | \$ (0.07           | ) \$ 4.02   | \$ 3.15           | \$ 8.46   |

For the three and nine months ended September 30, 2015, there were 323,570 and 2,028 instruments, respectively, excluded from the above computations of weighted-average shares for diluted EPS, because the effect would be anti-dilutive. For each of the three and nine months ended September 30, 2014, there were zero instruments excluded from the above computation of weighted-average shares for diluted EPS.

#### 10. Business Combination

On April 10, 2015, the Company made an investment of approximately \$4.8 million for a majority ownership position in Virtus ETF Solutions (“VES”), formerly known as ETF Issuer Solutions. VES is a New York City-based company that operates a platform for listing, operating, and distributing exchange-traded funds. The transaction was accounted for under Accounting Standards Codification (“ASC”) 805 “Business Combinations.” Goodwill of \$1.4 million and other intangible assets of \$2.4 million were recorded as a result of this transaction. The impact of this transaction was not material to the Company’s condensed consolidated financial statements.

#### 11. Income Taxes

In calculating the provision for income taxes, the Company uses an estimate of the annual effective tax rate based upon the facts and circumstances at each interim period. On a quarterly basis, the estimated annual effective tax rate is adjusted, as appropriate, based upon changes in facts and circumstances, if any, as compared to those forecasted at the beginning of the fiscal year and each interim period thereafter.

The provision for income taxes reflected U.S. federal, state and local taxes at an estimated effective tax rate of 53.1% and 23.6% for the nine months ended September 30, 2015 and 2014, respectively. The year-over-year increase in the estimated effective tax rate was primarily due to changes in the valuation allowance related to the unrealized loss position on the Company’s marketable securities, as well as a tax benefit recognized during the period ended September 30, 2014 related to the settlement of an audit of the Company’s 2011 federal corporate income tax return.

#### 12. Commitments and Contingencies

##### Legal Matters

The Company is regularly involved in litigation and arbitration as well as examinations, inquiries and investigations by various regulatory bodies, including the SEC, involving its compliance with, among other things, securities laws, client investment guidelines, laws governing the activities of broker-dealers and other laws and regulations affecting its products and other activities. Legal and regulatory matters of this nature involve or may involve the Company’s activities as an employer, issuer of securities, investor, investment adviser, broker-dealer or taxpayer. In addition, in the normal course of business, the





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Company discusses matters with its regulators raised during regulatory examinations or is otherwise subject to their inquiry. These matters could result in censures, fines, penalties or other sanctions.

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

**Regulatory Matter**

As previously disclosed, in December 2014 the SEC announced a settlement with F-Squared Investments ("F-Squared"), an unaffiliated former subadviser, which settled charges that F-Squared had violated the federal securities laws as described in Investment Advisers Act Release No. 3988. The settlement related to F-Squared's inaccurate performance information for the period of April 2001 through September 2008, including indices that certain Virtus mutual funds tracked beginning in September 2009 and January 2011. As part of the SEC's non-public, confidential investigation of this matter, the SEC staff informed the Company that it was inquiring into whether the Company had violated securities laws or regulations with respect to F-Squared's historical performance information. Although the Company has not received a Wells Notice in connection with the investigation, the Company has been in active discussions with the SEC staff and has reached an agreement in principle with the SEC staff to settle this matter. Under the terms of the proposed settlement, the Company would pay a total of \$16.5 million, which is consistent with the loss contingency previously recorded and disclosed by the Company. This agreement in principle is subject to review and approval by the Commission.

As referenced above, pursuant to ASC 450 - Loss Contingencies, the Company had previously recorded a total pre-tax loss contingency of \$16.5 million and a related potential income tax benefit of \$5.5 million for a net impact of \$11.0 million related to this matter; however, the Company cannot assure you that the Commission will approve the proposed settlement agreement, that any final settlement will not have different or additional material terms, that any associated loss will not exceed the aggregate loss contingency recorded or that a final resolution of this matter will be reached.

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

On February 20, 2015, a putative class action complaint alleging violation of the federal securities laws was filed by an individual shareholder against the Company and certain of the Company's current officers (the "defendants") in the United States District Court for the Southern District of New York. On April 21, 2015, three plaintiffs, including the original plaintiff, filed motions to be appointed lead plaintiff. On June 9, 2015, the court entered an order appointing Arkansas Teachers Retirement System lead plaintiff. On August 21, 2015, plaintiff filed a Consolidated Class Action Complaint (the "Consolidated Complaint") amending the originally filed complaint. The Consolidated Complaint was purportedly filed on behalf of all purchasers of the Company's common stock between January 25, 2013 and May 11, 2015 (the "Class Period"). The Consolidated Complaint alleges that during the Class Period, the defendants disseminated materially false and misleading statements and concealed material adverse facts relating to certain funds subadvised by F-Squared. The Consolidated Complaint alleges claims under Sections 10(b) and 20(a) of the Securities

Exchange Act of 1934, as amended, and Rule 10b-5. The plaintiff seeks to recover unspecified damages. The Company believes that the suit is without merit and intends to defend it vigorously. A motion to dismiss the Consolidated Complaint was filed on behalf of the Company and the other defendants on October 21, 2015. The Company believes that there is not a material loss that is probable and reasonably estimable related to this claim.

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Mark Youngers v. Virtus Investment Partners, Inc. et al

On May 8, 2015, a putative class action complaint alleging violations of certain provisions of the federal securities laws was filed in the United States District Court for the Central District of California by an individual who alleges he is a former shareholder of one of the Virtus mutual funds formerly subadvised by F-Squared and formerly known as the AlphaSector Funds. The complaint purports to allege claims against the Company, certain of the Company's officers and affiliates, and certain other parties (the "defendants"). The complaint was purportedly filed on behalf of purchasers of the AlphaSector Funds between May 8, 2010 and December 22, 2014, inclusive (the "Class Period"). The complaint alleges that during the Class Period the defendants disseminated materially false and misleading statements and concealed or omitted material facts necessary to make the statements made not misleading. On June 7, 2015, a group of three individuals, including the original plaintiff, filed a motion to be appointed lead plaintiff. No other motions to be appointed lead plaintiff were filed. On July 27, 2015, the court granted the motion, appointing movants as lead plaintiff. Also, on July 27, 2015, the court issued an order to show cause requiring lead plaintiff to explain no later than July 31, 2015, why his claims should not be transferred and consolidated with the In re Virtus Investment Partners, Inc. Securities Litigation action discussed above. On October 1, 2015, plaintiff filed a First Amended Class Action Complaint which, among other things, added a derivative claim for breach of fiduciary duty on behalf of Virtus Opportunities Trust. On October 19, 2015, The United States District Court for the Central District of California entered an order transferring the action to the Southern District of New York. The Company believes the plaintiff's claims asserted in the complaint are frivolous and intends to defend it vigorously. The Company believes that there is not a material loss that is probable and reasonably estimable related to this claim.

### 13. Consolidated Sponsored Investment Products

In the normal course of its business, the Company sponsors various investment products. The Company consolidates an investment product when it owns a majority of the voting interest in the entity or it is the primary beneficiary of an investment product that is a VIE, as a consolidated sponsored investment product. The consolidation and deconsolidation of these investment products has no impact on net income attributable to stockholders. The Company's risk with respect to these investments is limited to its investment in these products. The Company has no right to the benefits from, and does not bear the risks associated with these investment products, beyond the Company's investments in, and fees generated from these products. The Company does not consider cash and investments held by consolidated sponsored investment products or any other VIE to be assets of the Company other than its direct investment in these products.

As of September 30, 2015 and December 31, 2014, the Company consolidated 14 and 12 sponsored investment products, respectively. During the nine months ended September 30, 2015, the Company consolidated three additional sponsored investment products and deconsolidated one sponsored investment product because it no longer had a majority voting interest.

The following table presents the balances of the consolidated sponsored investment products that were reflected in the Condensed Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014:

|   | As of                 |                      |
|---|-----------------------|----------------------|
|   | September 30,<br>2015 | December 31,<br>2014 |
| (\$ in thousands)   |                       |                      |
| Total cash and cash equivalents   | \$ 16,732             | \$ 8,687             |
| Total investments   | 311,429               | 236,652              |
| All other assets  | 10,494                | 6,960                |
| Total liabilities   | (29,849 )             | (12,556 )            |
| Redeemable noncontrolling interests   | (49,895 )             | (23,071 )            |
| The Company's net interests in consolidated sponsored investment products                                     | \$258,911             | \$216,672            |
| The Company's net interest as a percentage of total investments of consolidated sponsored investment products | 83.1                  | % 91.6 %             |



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## Fair Value Measurements

The assets and liabilities of the consolidated sponsored investment products measured at fair value on a recurring basis as of September 30, 2015 and December 31, 2014 by fair value hierarchy level were as follows:

As of September 30, 2015

|  | Level 1   | Level 2   | Level 3 | Total     |
|--|-----------|-----------|---------|-----------|
| (\$ in thousands)                        |           |           |         |           |
| Assets                                   |           |           |         |           |
| Debt securities                          | \$—       | \$147,663 | \$926   | \$148,589 |
| Equity securities                        | 155,763   | 7,077     | —       | 162,840   |
| Derivatives                              | 125       | 633       | —       | 758       |
| Total assets measured at fair value      | \$155,888 | \$155,373 | \$926   | \$312,187 |
| Liabilities                              |           |           |         |           |
| Derivatives                              | \$403     | \$917     | \$—     | \$1,320   |
| Short sales                              | 9,432     | 423       | —       | 9,855     |
| Total liabilities measured at fair value | \$9,835   | \$1,340   | \$—     | \$11,175  |

As of December 31, 2014

|  | Level 1  | Level 2   | Level 3 | Total     |
|--|----------|-----------|---------|-----------|
| (\$ in thousands)                        |          |           |         |           |
| Assets                                   |          |           |         |           |
| Debt securities                          | \$—      | \$135,050 | \$1,065 | \$136,115 |
| Equity securities                        | 82,417   | 18,120    | —       | 100,537   |
| Derivatives                              | 154      | 227       | —       | 381       |
| Total assets measured at fair value      | \$82,571 | \$153,397 | \$1,065 | \$237,033 |
| Liabilities                              |          |           |         |           |
| Derivatives                              | \$191    | \$—       | \$—     | \$191     |
| Short sales                              | 7,491    | 674       | —       | 8,165     |
| Total liabilities measured at fair value | \$7,682  | \$674     | \$—     | \$8,356   |

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

Investments of consolidated sponsored investment products represent the underlying debt, equity and other securities held in sponsored products which are consolidated by the Company. Equity securities are valued at the official closing price on the exchange on which the securities are traded and are categorized within Level 1. Level 2 investments include most debt securities, which are valued based on quotations received from independent pricing services or from dealers who make markets in such securities and certain equity securities, including non-US securities, for which closing prices are not readily available or are deemed to not reflect readily available market prices and are valued using an independent pricing service. Pricing services do not provide pricing for all securities, and therefore indicative bids from dealers are utilized, which are based on pricing models used by market makers in the security and are also included within Level 2. Level 3 investments include debt securities that are not widely traded, are illiquid or are priced by dealers based on pricing models used by market makers in the security.

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

| (\$ in thousands)                     | Nine Months Ended     |       |
|---------------------------------------|-----------------------|-------|
|                                       | September 30,<br>2015 | 2014  |
| Level 3 Debt securities (a)           |                       |       |
| Balance at beginning of period        | \$1,065               | \$—   |
| Purchases                             | 135                   | 450   |
| Paydowns                              | (14                   | ) (2  |
| Sales                                 | (13                   | ) —   |
| Transferred to Level 2                | (126                  | ) —   |
| Change in unrealized gain/(loss), net | (121                  | ) (1  |
| Balance at end of period              | \$926                 | \$447 |

(a) None of the securities reflected in the above table were internally fair valued at September 30, 2015.

For the nine months ended September 30, 2015, securities held by consolidated sponsored investment products with an end of period value of \$8.9 million were transferred from Level 2 to Level 1 because certain non-US securities quoted market prices were no longer adjusted based on third-party factors derived from model-based valuation techniques for which the significant assumptions were observable in the market. For the nine months ended September 30, 2015, securities held by consolidated sponsored investment products with an end of period value of \$0.3 million were transferred from Level 1 to Level 2 because certain non-US securities quoted market prices were adjusted based on third-party factors derived from model-based valuation techniques for which the significant assumptions were observable in the market. There were no transfers between Level 1, Level 2, or Level 3 during the nine months ended September 30, 2014.

Derivatives

The Company has certain consolidated sponsored investment products which include derivative instruments as part of their investment strategies to contribute to the achievement of defined investment objectives. These derivatives may include futures contracts, options contracts and forward contracts. Derivative instruments in an asset position are classified as other assets of consolidated sponsored investment products in the Condensed Consolidated Balance Sheets. Derivative instruments in a liability position are classified as liabilities of consolidated sponsored investment products within the Condensed Consolidated Balance Sheets. The change in fair value of such derivatives is recorded in realized and unrealized gain (loss) on investments of consolidated sponsored investment products, net, in the Condensed Consolidated Statements of Operations. In connection with entering into these derivative contracts, these funds may be required to pledge to the broker an amount of cash equal to the “initial margin” requirements that varies based on the type of derivative. The cash pledged or on deposit is recorded in the Condensed Consolidated Balance Sheets of the Company as Cash pledged or on deposit of consolidated sponsored investment products. The fair value of such derivatives at September 30, 2014 and December 31, 2014 was immaterial.



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The Company's consolidated sponsored investment products were party to the following derivative instruments for the period ended September 30, 2015:

(\$ in thousands)

|  | Volume  |     |
|--|---------|-----|
| Purchased options                                    | \$3,527 | (a) |
| Written options                                      | 2,499   | (b) |
| Futures contracts long/short                         | 109,286 | (c) |
| Forward foreign currency exchange purchase contracts | 2,294   | (d) |
| Forward foreign currency exchange sale contracts     | 26,565  | (e) |
| Interest rate swaps                                  | 31,603  | (a) |
| Other swaps  | 27,956  | (f) |

(a) Represents cost of holdings as of the end of the period.

(b) Represents aggregate premiums received for the period.

(c) Represents cost at trade date for holdings as of the end of the period.

(d) Represents value of trade date payable for holdings as of the end of the period.

(e) Represents value at settlement date receivable for holdings as of the end of the period.

(f) Includes credit default, total return, inflation and variance swaps. Represents notional value of holdings as of the end of the period.

The following is a summary of the consolidated sponsored investment products' derivative instruments as of September 30, 2015. For financial reporting purposes the Company does not offset derivative assets and derivative liabilities that are subject to netting arrangements in its Condensed Consolidated Balance Sheet.

| (\$ in thousands)  | Fair Value |             |
|--|------------|-------------|
|  | Assets     | Liabilities |
| Futures contracts  | \$119      | \$33        |
| Forward foreign currency exchange contracts  | 228        | 117         |
| Swaps  | 1,226      | 1,002       |
| Purchased options  | 1,005      | —           |
| Purchased swaptions  | 701        | —           |
| Written options  | —          | 691         |
| Total derivative assets and liabilities in the Condensed Consolidated Balance Sheets | 3,279      | 1,843       |
| Derivatives not subject to a master netting agreement                                | (654       | ) (207      |
| Total assets and liabilities subject to a master netting agreement                   | 2,625      | 1,636       |

The Company's consolidated sponsored investment products have counterparty risk associated with these derivative assets and liabilities. Multiple counterparties are utilized to mitigate this risk, and the maximum exposure to a single bank does not exceed 34.4% of the total derivative assets or 40.9% of the total derivative liabilities.

The following is a summary of the net gains (losses) recognized in income by primary risk exposure, for the three and nine months ended September 30, 2015:



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| (\$ in thousands)                   | Three Months Ended<br>September 30, 2015 | Nine Months Ended<br>September 30, 2015 |
|-------------------------------------|--|---|
| Interest rate contracts             | \$ (217                                  | ) \$ (75                                |
| Foreign currency exchange contracts | 263                                      | 666                                     |
| Equity contracts                    | 633                                      | 1,414                                   |
| Commodity contracts                 | 212                                      | 126                                     |
| Credit contracts                    | (13                                      | ) (100                                  |
| Total                               | \$ 878                                   | \$ 2,031                                |

**Short Sales**

Some of the Company's consolidated sponsored investment products may engage in short sales, which are transactions in which a security is sold which is not owned or is owned but there is no intention to deliver, in anticipation that the price of the security will decline. Short sales are recorded in the Condensed Consolidated Balance Sheets within other liabilities of consolidated sponsored investment products.

**Borrowings**

One of the Company's consolidated sponsored investment products employs leverage in the form of using proceeds from short sales, which allows it to use its long positions as collateral in order to purchase additional securities. The use of these proceeds from short sales is secured by the assets of the consolidated sponsored investment product, which are held with the custodian in a separate account. This consolidated sponsored investment product is permitted to borrow up to 33.33% of its total assets.

**14. Consolidated Investment Product**

During the third quarter of 2015, the Company contributed \$20.0 million to a special purpose entity ("SPE") that was created specifically to accumulate bank loan assets for securitization as a potential CLO that will be managed by its Newfleet affiliate. The special purpose entity is a VIE and the Company consolidates the SPE's assets and liabilities within its financial statements as it is the primary beneficiary of the VIE.

The following table presents the balances of the consolidated investment product that were reflected in the Condensed Consolidated Balance Sheets as of September 30, 2015. There was no consolidated investment product at December 31, 2014.

| (\$ in thousands)   | As of<br>September 30,<br>2015 |
|---|--------------------------------|
| Total cash equivalents  | \$ 120                         |
| Total investments   | 131,862                        |
| Other assets  | 20                             |
| Debt  | (9,140                         |
| Securities purchased payable  | ) (103,541                     |
| The Company's net interests in consolidated investment product                                      | \$ 19,321                      |
| The Company's net interests as a percentage of total investments of consolidated investment product | 14.7                           |

**Fair Value Measurements of Consolidated Investment Product**

The assets and liabilities of the consolidated investment product measured at fair value on a recurring basis as of September 30, 2015 by fair value hierarchy level were as follows:

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|                                     | Level 1 | Level 2    | Level 3 | Total      |
|-------------------------------------|---------|------------|---------|------------|
| (\$ in thousands)                   |         |            |         |            |
| Assets                              |         |            |         |            |
| Cash equivalents                    | \$ 120  | \$—        | \$—     | \$ 120     |
| Bank loans                          | —       | 131,862    | —       | 131,862    |
| Total Assets Measured at Fair Value | \$ 120  | \$ 131,862 | \$—     | \$ 131,982 |

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

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

Bank loans represent the underlying debt securities held in the sponsored product which are consolidated by the Company. Bank loan investments include debt securities, which are valued based on quotations received from an independent pricing service. Pricing services do not provide pricing for all securities, and therefore indicative bids from dealers are utilized, which are based on pricing models used by market makers in the security and are also included within Level 2.

The estimated fair value of debt at September 30, 2015, which has a variable interest rate, approximates its carrying value and is classified as Level 2. The securities purchase payable at September 30, 2015 approximates fair value due to the short-term nature of the instruments.

#### Debt of Consolidated Investment Product

On August 17, 2015, the SPE, entered into a three-year term \$160.0 million financing transaction with a bank lending counterparty (the "Financing Facility"). The proceeds of the Financing Facility are intended to be used to purchase and warehouse commercial bank loan assets pending the securitization of such assets as a CLO. The size of the Financing Facility may be increased subject to the occurrence of certain events and the mutual consent of the parties. The Financing Facility is secured by all the assets of the SPV and initially bears interest at a rate of three-month LIBOR plus 1.25% per annum (with such interest rate, upon completion of the initial nine-month ramp-up period, increasing to three-month LIBOR plus 2.0% per annum). The Financing Facility contains standard covenant and event of default provisions (including loan-to-value ratio triggers) and foreclosure remedies upon such default in favor of the lender thereunder. The \$20.0 million the Company contributed to the SPE serves as first loss protection for the bank lending counterparty under the Financing Facility. In the event of default, the recourse to the Company is limited to its investment. At September 30, 2015 \$9.1 million was outstanding under the Financing Facility.

#### 15. Consolidation

As of September 30, 2015, 15 products were consolidated by the Company including 14 consolidated sponsored investment products and one consolidated investment product. As of December 31, 2014, 12 products were consolidated by the Company, comprised entirely of sponsored investment products.

The following tables reflect the impact of the consolidated sponsored investment products and consolidated investment product in the Condensed Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014, respectively:

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As of September 30, 2015

|  | Balance<br>Before<br>Consolidation<br>of<br>Investment<br>Products | Consolidated<br>Sponsored<br>Investment<br>Products | Consolidated<br>Investment<br>Product | Eliminations<br>and<br>Adjustments (a) | Balances as<br>Reported in<br>Condensed<br>Consolidated<br>Balance Sheet |
|--|--|---|---------------------------------------|--|--|
| (\$ in thousands)                                  |  |   |                                       |  |  |
| Total cash   | \$126,470  | \$16,732  | \$120                                 | \$ —                                   | \$143,322  |
| Total investments                                  | 333,307  | 311,429   | 131,862                               | (278,082 )                             | 498,516  |
| All other assets                                   | 174,563  | 10,494  | 20                                    | (152 )                                 | 184,925  |
| Total assets                                       | \$634,340  | \$338,655   | \$132,002                             | \$ (278,234 )                          | \$826,763  |
| Total liabilities                                  | \$95,010   | \$29,999  | \$112,681                             | \$ (152 )                              | \$237,538  |
| Redeemable noncontrolling interest                 | —  | —   | —                                     | 49,895                                 | 49,895   |
| Equity attributable to stockholders of the Company | 539,626  | 308,656   | 19,321                                | (327,977 )                             | 539,626  |
| Non-redeemable noncontrolling interest             | (296 )   | —   | —                                     | —                                      | (296 )   |
| Total liabilities and equity                       | \$634,340  | \$338,655   | \$132,002                             | \$ (278,234 )                          | \$826,763  |
| As of December 31, 2014                            |  |   |                                       |  |  |

|  | Balance<br>Before<br>Consolidation<br>of<br>Investment<br>Products | Consolidated<br>Sponsored<br>Investment<br>Products | Consolidated<br>Investment<br>Product | Eliminations<br>and<br>Adjustments (a) | Balances as<br>Reported in<br>Condensed<br>Consolidated<br>Balance Sheet |
|--|--|---|---------------------------------------|--|--|
| (\$ in thousands)                                  |  |   |                                       |  |  |
| Total cash   | \$202,847  | \$8,687   | \$—                                   | \$ —                                   | \$211,534  |
| Total investments                                  | 279,863  | 236,652   | —                                     | (216,415 )                             | 300,100  |
| All other assets                                   | 180,436  | 6,960   | —                                     | (257 )                                 | 187,139  |
| Total assets                                       | \$663,146  | \$252,299   | \$—                                   | \$ (216,672 )                          | \$698,773  |
| Total liabilities                                  | \$99,794   | \$12,813  | \$—                                   | \$ (257 )                              | \$112,350  |
| Redeemable noncontrolling interest                 | —  | —   | —                                     | 23,071                                 | 23,071   |
| Equity attributable to stockholders of the Company | 563,542  | 239,486   | —                                     | (239,486 )                             | 563,542  |
| Non-redeemable noncontrolling interest             | (190 )   | —   | —                                     | —                                      | (190 )   |
| Total liabilities and equity                       | \$663,146  | \$252,299   | \$—                                   | \$ (216,672 )                          | \$698,773  |

Adjustments include the elimination of intercompany transactions between the Company, its consolidated (a) sponsored investment products and consolidated investment product, primarily the elimination of the investments, consolidated sponsored investment product equity, consolidated investment product equity and recording of any noncontrolling interest.

The following table reflects the impact of the consolidated sponsored investment products and consolidated investment products in the Condensed Consolidated Statement of Operations for the three and nine months ended September 30, 2015 and 2014:



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For the Three Months Ended September 30, 2015

|  | Balance Before Consolidation of Investment Products | Consolidated Sponsored Investment Products | Consolidated Investment Product | Eliminations and Adjustments (a) | Balances as Reported in Condensed Consolidated Statement of Operations |
|--|---|--|---------------------------------|----------------------------------|--|
| (\$ in thousands)                            |   |  |                                 |                                  |  |
| Total operating revenues                     | \$92,804  | \$—  | \$—                             | \$ (429 )                        | \$92,375   |
| Total operating expenses                     | 68,134  | 1,548                                      | —                               | (429 )                           | 69,253   |
| Operating income (loss)                      | 24,670  | (1,548 )                                   | —                               | —                                | 23,122   |
| Total other non-operating expense            | (15,557 )   | (14,723 )                                  | (679 )                          | 13,803                           | (17,156 )  |
| Income (loss) before income taxes            | 9,113   | (16,271 )                                  | (679 )                          | 13,803                           | 5,966  |
| Income taxes                                 | 9,669   | —  | —                               | —                                | 9,669  |
| Net loss                                     | (556 )  | (16,271 )                                  | (679 )                          | 13,803                           | (3,703 )   |
| Noncontrolling interests                     | (93 )   | —  | —                               | 3,147                            | 3,054  |
| Net loss attributable to common stockholders | \$(649 )  | \$(16,271 )                                | \$(679 )                        | \$ 16,950                        | \$(649 )   |

For the Three Months Ended September 30, 2014

|   | Balance Before Consolidation of Investment Products | Consolidated Sponsored Investment Products | Consolidated Investment Product | Eliminations and Adjustments (a) | Balances as Reported in Condensed Consolidated Statement of Operations |
|---|---|--|---------------------------------|----------------------------------|--|
| (\$ in thousands)                                     |   |  |                                 |                                  |  |
| Total operating revenues                              | \$117,808   | \$—  | \$—                             | \$ 33                            | \$117,841  |
| Total operating expenses                              | 77,668  | 1,213                                      | —                               | 33                               | 78,914   |
| Operating income (loss)                               | 40,140  | (1,213 )                                   | —                               | —                                | 38,927   |
| Total other non-operating loss                        | (4,649 )  | (3,109 )                                   | —                               | 4,021                            | (3,737 )   |
| Income (loss) before income taxes                     | 35,491  | (4,322 )                                   | —                               | 4,021                            | 35,190   |
| Income taxes  | (1,805 )  | —  | —                               | —                                | (1,805 )   |
| Net income (loss)                                     | 37,296  | (4,322 )                                   | —                               | 4,021                            | 36,995   |
| Noncontrolling interests                              | 44  | —  | —                               | 301                              | 345  |
| Net income (loss) attributable to common stockholders | \$37,340  | \$(4,322 )                                 | \$—                             | \$ 4,322                         | \$37,340   |

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For the Nine Months Ended September 30, 2015

|   | Balance Before Consolidation of Investment Products | Consolidated Sponsored Investment Products | Consolidated Investment Product | Eliminations and Adjustments (a) | Balances as Reported in Condensed Consolidated Statement of Operations |
|---|---|--|---------------------------------|----------------------------------|--|
| (\$ in thousands)                                     |   |  |                                 |                                  |  |
| Total operating revenues                              | \$297,089   | \$—  | \$—                             | \$ (1,227 )                      | \$295,862  |
| Total operating expenses                              | 229,096   | 4,121                                      | —                               | (1,227 )                         | 231,990  |
| Operating income (loss)                               | 67,993  | (4,121 )                                   | —                               | —                                | 63,872   |
| Total other non-operating expense                     | (11,269 )   | (9,951 )                                   | (680 )                          | 11,422                           | (10,478 )  |
| Income (loss) before income taxes                     | 56,724  | (14,072 )                                  | (680 )                          | 11,422                           | 53,394   |
| Income taxes  | 28,360  | —  | —                               | —                                | 28,360   |
| Net income (loss)                                     | 28,364  | (14,072 )                                  | (680 )                          | 11,422                           | 25,034   |
| Noncontrolling interests                              | 106   | —  | —                               | 3,330                            | 3,436  |
| Net income (loss) attributable to common stockholders | \$28,470  | \$(14,072 )                                | \$(680 )                        | \$ 14,752                        | \$28,470   |

For the Nine Months Ended September 30, 2014

|  | Balance Before Consolidation of Investment Products | Consolidated Sponsored Investment Products | Consolidated Investment Product | Eliminations and Adjustments (a) | Balances as Reported in Condensed Consolidated Statement of Operations |
|--|---|--|---------------------------------|----------------------------------|--|
| (\$ in thousands)                              |   |  |                                 |                                  |  |
| Total operating revenues                       | \$338,534   | \$—  | \$—                             | \$ (73 )                         | \$338,461  |
| Total operating expenses                       | 242,032   | 2,447                                      | —                               | (73 )                            | 244,406  |
| Operating income (loss)                        | 96,502  | (2,447 )                                   | —                               | —                                | 94,055   |
| Total other non-operating income               | 6,545   | 5,883                                      | —                               | (3,618 )                         | 8,810  |
| Income before income taxes                     | 103,047   | 3,436                                      | —                               | (3,618 )                         | 102,865  |
| Income taxes                                   | 24,311  | —  | —                               | —                                | 24,311   |
| Net income                                     | 78,736  | 3,436                                      | —                               | (3,618 )                         | 78,554   |
| Noncontrolling interests                       | 85  | —  | —                               | 182                              | 267  |
| Net income attributable to common stockholders | \$78,821  | \$3,436                                    | \$—                             | \$ (3,436 )                      | \$78,821   |

Adjustments include the elimination of intercompany transactions between the Company, its consolidated sponsored investment products and consolidated investment product, primarily the elimination of the investments, (a) consolidated sponsored investment product equity, consolidated investment product equity and recording of any noncontrolling interest.

## 16. Subsequent Event

On October 21, 2015, the Company's board of directors authorized an additional 1,500,000 shares of common stock under the current share repurchase program. Upon authorization, total shares remaining available for repurchase were 1,756,091. Under terms of the program, the Company may repurchase shares of its common stock from time to time at its discretion through open market repurchases and/or privately negotiated transactions, depending on price and

prevailing market and business conditions. The program, which has no specified term, may be suspended or terminated at any time.

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations  
Cautionary Statement Regarding Forward Looking Statements

This Quarterly Report on Form 10-Q contains statements that are, or may be considered to be, forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995, as amended, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements that are not historical facts, including statements about our beliefs or expectations, are forward-looking statements. These statements may be identified by such forward-looking terminology as “expect,” “estimate,” “plan,” “intend,” “believe,” “may,” “will,” “should,” “could,” “anticipate,” “forecast,” “project,” “opportunity,” “potential,” “future,” “guarantee,” “assume,” “likely,” “continue,” “target” or similar statements or variations of such terms. Our forward-looking statements are based on a series of expectations, assumptions and projections about our Company and the markets in which we operate, are not guarantees of future results or performance and involve substantial risks and uncertainty, including assumptions and projections concerning our assets under management, net cash inflows and outflows, operating cash flows and future credit facilities, for all future periods. All of our forward-looking statements contained in this Quarterly Report on Form 10-Q are as of the date of this Quarterly Report on Form 10-Q only.

We can give no assurance that such expectations or forward-looking statements will prove to be correct. Actual results may differ materially. We do not undertake or plan to update or revise any such forward-looking statements to reflect actual results, changes in plans, assumptions, estimates or projections, or other circumstances occurring after the date of this Quarterly Report on Form 10-Q, even if such results, changes or circumstances make it clear that any forward-looking information will not be realized. If there are any future public statements or disclosures by us which modify or impact any of the forward-looking statements contained in or accompanying this Quarterly Report on Form 10-Q, such statements or disclosures will be deemed to modify or supersede such statements in this Quarterly Report. Our business and our forward-looking statements involve substantial known and unknown risks and uncertainties, including those discussed under “Risk Factors,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2014, and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Quarterly Report on Form 10-Q, as well as the following risks and uncertainties: (a) any reduction in our assets under management, including due to market conditions, investment performance and client withdrawals; (b) the withdrawal, renegotiation or termination of our investment advisory agreements on short notice; (c) damage to our reputation; (d) failure to comply with agreements that have established investment guidelines or other contractual requirements; (e) our inability to attract and retain key personnel; (f) the competition we face in our business, including competition related to investment products and fees; (g) adverse regulatory and legal developments; (h) limitations on our deferred tax assets; (i) adverse developments with respect to, or changes in our relationships with, unaffiliated subadvisers; (j) changes in key distribution relationships; (k) interruptions in service or failure to provide service by third-party service providers for services critical to our business; (l) volatility associated with the concentrated ownership of our common stock; (m) civil litigation and government investigations or proceedings; (n) the significant portion of our assets invested in marketable securities that are primarily comprised of our seed capital program; (o) our inability to make intended quarterly distributions; (p) lack of availability of required and necessary capital on satisfactory terms; (q) corporate governance provisions that may make an acquisition of us more difficult; and (r) liabilities and losses not covered by our insurance policies, along with certain other risks and uncertainties described in our 2014 Annual Report on Form 10-K or in any of our filings with the Securities and Exchange Commission (“SEC”). Any occurrence of, or any material adverse change in, one or more risk factors or risks and uncertainties referred to in this Quarterly Report or included in our 2014 Annual Report on Form 10-K or our other periodic reports filed with the SEC could materially and adversely affect our operations, financial results, cash flows, prospects and liquidity.

Certain other factors which may impact our continuing operations, prospects, financial results and liquidity or which may cause actual results to differ from such forward-looking statements are discussed or included in the Company’s periodic reports filed with the SEC and are available on our website at [www.virtus.com](http://www.virtus.com) under “Investor Relations.” You



are urged to carefully consider all such factors.

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Overview

We are a provider of investment management and related services to individuals and institutions. We use a multi-manager, multi-style approach, offering investment strategies from affiliated managers and unaffiliated subadvisers, each having its own distinct investment style, autonomous investment process and individual brand. By offering a broad array of products, we believe we can appeal to a greater number of investors, which allows us to have offerings across market cycles through changes in investor preferences. Our earnings are primarily driven by asset-based fees charged for services relating to these various products including investment management, fund administration, distribution and shareholder services.

We offer investment strategies for individual and institutional investors in different product structures and through multiple distribution channels. Our investment strategies are available in a diverse range of styles and disciplines, managed by a collection of boutique investment managers, both affiliated and unaffiliated. We have offerings in various asset classes (domestic and international equity, fixed income and alternative), in all market capitalizations (large, mid and small), in different styles (growth, blend and value) and with various investment approaches (fundamental, quantitative and thematic). Our retail products include open-end mutual funds, closed-end funds, variable insurance funds, exchange traded funds (“ETFs”) and separately managed accounts. We also offer certain of our investment strategies to institutional clients.

We distribute our open-end mutual funds through financial intermediaries. We have broad access in the retail market, with distribution partners that include national and regional broker-dealers, independent broker-dealers and independent financial advisory firms. In many of these firms, we have a number of products that are on firms’ preferred “recommended” lists and on fee-based advisory programs. Our sales efforts are supported by regional sales professionals, a national account relationship group and separate teams for the retirement and insurance markets. Our separately managed accounts are distributed through financial intermediaries and directly by teams at our affiliated managers. Our institutional distribution strategy is an affiliate-centric and coordinated model. Through relationships with consultants, our affiliates target key market segments, including foundations and endowments, corporate, public and private pension plans and unaffiliated mutual funds.

Financial Highlights

Net loss per diluted share was (\$0.07) in the third quarter of 2015 compared to earnings per share of \$4.02 in the third quarter of 2014. Third quarter 2015 results include (\$1.89) per share of unrealized mark to market adjustments.

Total sales were \$2.5 billion in the third quarter of 2015 compared to \$3.5 billion in the third quarter of 2014. Net flows were (\$1.6) billion in the third quarter of 2015 compared to \$0.5 billion in the third quarter of 2014.

Assets under management were \$47.9 billion at September 30, 2015 compared to \$59.6 billion at September 30, 2014 excluding money market assets.

Assets Under Management

At September 30, 2015, we managed \$47.9 billion in total assets, representing a decrease of \$11.7 billion, or 19.6% excluding money market assets from September 30, 2014 (or a decrease of \$12.9 billion, or 21.3% including money market assets) and a decrease of \$8.8 billion or 15.5% from December 31, 2014. The decrease in assets under management from December 31, 2014 was primarily due to net outflows of \$5.2 billion and market depreciation of \$3.1 billion. The \$5.2 billion in net outflows during the nine months of 2015 was primarily attributable to \$5.9 billion in net outflows in the former AlphaSector funds. At September 30, 2015, assets under management in the former AlphaSector funds represented \$3.3 billion, or 7.0% of total assets under management. On May 11, 2015, the Company served notice of termination to an unaffiliated subadviser to five Virtus open-end mutual funds previously known as the AlphaSector funds. Excluding the former AlphaSector funds, net inflows were \$0.7 billion during the first nine months of 2015.

Average assets under management, which generally correspond to our fee-earning asset levels, were \$50.6 billion for the three months ended September 30, 2015, a decrease of \$11.2 billion, or 18.1%, from \$61.8 billion for the three months ended September 30, 2014. Average assets under management were \$52.8 billion for the nine months ended September 30, 2015, a decrease of \$6.5 billion, or 10.9%, from \$59.3 billion for the nine months ended September 30, 2014.



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## Operating Results

In the third quarter of 2015, total revenues decreased 21.6% to \$92.4 million from \$117.8 million in the third quarter of 2014. This decrease was primarily the result of a decrease in average assets under management. Operating income decreased by 40.6% from \$38.9 million in the third quarter of 2014 to \$23.1 million in the third quarter of 2015, primarily due to decreased revenues driven by lower levels of average assets under management offset by lower operating expenses associated with the decreased revenues discussed above.

## Assets Under Management by Product

The following table summarizes our assets under management by product:

| (\$ in millions)  | As of September 30, |            | Change        |   |          |
|---|---------------------|------------|---------------|---|----------|
|   | 2015                | 2014       | 2015 vs. 2014 |   | %        |
| Fund assets   |                     |            |               |   |          |
| Open-end mutual funds (1)                                 | \$29,716.4          | \$41,076.3 | \$(11,359.9)  | ) | (27.7)%  |
| Closed-end funds  | 6,349.8             | 7,568.1    | (1,218.3)     | ) | (16.1)%  |
| Exchange traded funds                                     | 306.9               | —          | 306.9         |   | 100.0%   |
| Money market funds (2)                                    | —                   | 1,231.9    | (1,231.9)     | ) | (100.0)% |
| Total fund assets   | 36,373.1            | 49,876.3   | (13,503.2)    | ) | (27.1)%  |
| Separately managed accounts (3)                           | 6,539.6             | 6,653.0    | (113.4)       | ) | (1.7)%   |
| Total retail assets                                       | 42,912.7            | 56,529.3   | (13,616.6)    | ) | (24.1)%  |
| Total institutional assets (3)                            | 5,025.0             | 4,348.3    | 676.7         |   | 15.6%    |
| Total Assets Under Management                             | \$47,937.7          | \$60,877.6 | \$(12,939.9)  | ) | (21.3)%  |
| Average Assets Under Management for the Nine Months Ended | \$52,843.7          | \$59,329.0 | \$(6,485.3)   | ) | (10.9)%  |

(1) Includes assets under management of open-end and variable insurance funds.

(2) On October 20, 2014, our money market funds were liquidated. This liquidation had no impact on our operating results.

(3) Includes assets under management related to option strategies.

## Asset Flows by Product

The following table summarizes our asset flows by product:

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| (\$ in millions)                       | Three Months Ended September |            | Nine Months Ended September |            |
|--|------------------------------|------------|-----------------------------|------------|
|  | 30,<br>2015                  | 2014       | 30,<br>2015                 | 2014       |
| <b>Open-End Funds (1)</b>              |                              |            |                             |            |
| Beginning balance                      | \$33,345.3                   | \$41,124.6 | \$37,514.2                  | \$37,679.5 |
| Inflows                                | 1,866.2                      | 3,055.2    | 7,499.9                     | 9,877.5    |
| Outflows                               | (3,736.0)                    | (2,442.2)  | (13,308.5)                  | (8,337.9)  |
| Net flows                              | (1,869.8)                    | 613.0      | (5,808.6)                   | 1,539.6    |
| Market performance                     | (1,780.9)                    | (727.3)    | (1,936.7)                   | 1,645.3    |
| Other (2)                              | 21.8                         | 66.0       | (52.5)                      | 211.9      |
| Ending balance                         | \$29,716.4                   | \$41,076.3 | \$29,716.4                  | \$41,076.3 |
| <b>Closed-End Funds</b>                |                              |            |                             |            |
| Beginning balance                      | \$6,901.0                    | \$7,530.6  | \$7,581.4                   | \$6,499.6  |
| Inflows                                | —                            | 30.5       | —                           | 493.8      |
| Outflows                               | —                            | —          | —                           | —          |
| Net flows                              | —                            | 30.5       | —                           | 493.8      |
| Market performance                     | (380.4)                      | (98.4)     | (830.6)                     | 676.1      |
| Other (2)                              | (170.8)                      | 105.4      | (401.0)                     | (101.4)    |
| Ending balance                         | \$6,349.8                    | \$7,568.1  | \$6,349.8                   | \$7,568.1  |
| <b>Exchange Traded Funds</b>           |                              |            |                             |            |
| Beginning balance                      | \$132.6                      | \$—        | \$—                         | \$—        |
| Inflows                                | 217.7                        | —          | 285.1                       | —          |
| Outflows                               | (13.8)                       | —          | (26.0)                      | —          |
| Net flows                              | 203.9                        | —          | 259.1                       | —          |
| Market performance                     | (29.1)                       | —          | (29.5)                      | —          |
| Other (2)                              | (0.5)                        | —          | 77.3                        | —          |
| Ending balance                         | \$306.9                      | \$—        | \$306.9                     | \$—        |
| <b>Money Market Funds</b>              |                              |            |                             |            |
| Beginning balance                      | \$—                          | \$1,311.7  | \$—                         | \$1,556.6  |
| Other (2)                              | —                            | (79.8)     | —                           | (324.7)    |
| Ending balance                         | \$—                          | \$1,231.9  | \$—                         | \$1,231.9  |
| <b>Separately Managed Accounts (3)</b> |                              |            |                             |            |
| Beginning balance                      | \$6,952.1                    | \$6,862.4  | \$6,884.8                   | \$7,433.1  |
| Inflows                                | 263.8                        | 319.2      | 959.1                       | 1,069.9    |
| Outflows                               | (334.5)                      | (343.3)    | (1,032.0)                   | (1,832.3)  |
| Net flows                              | (70.7)                       | (24.1)     | (72.9)                      | (762.4)    |
| Market performance                     | (353.2)                      | (180.5)    | (241.3)                     | (42.1)     |
| Other (2)                              | 11.4                         | (4.8)      | (31.0)                      | 24.4       |
| Ending balance                         | \$6,539.6                    | \$6,653.0  | \$6,539.6                   | \$6,653.0  |
| <b>Institutional Accounts (3)</b>      |                              |            |                             |            |
| Beginning balance                      | \$5,070.0                    | \$4,565.0  | \$4,722.0                   | \$4,570.8  |
| Inflows                                | 199.5                        | 109.4      | 781.7                       | 340.6      |
| Outflows                               | (110.3)                      | (236.5)    | (344.8)                     | (610.9)    |
| Net flows                              | 89.2                         | (127.1)    | 436.9                       | (270.3)    |
| Market performance                     | (109.9)                      | (45.6)     | (74.2)                      | 172.4      |
| Other (2)                              | (24.3)                       | (44.0)     | (59.7)                      | (124.6)    |
| Ending balance                         | \$5,025.0                    | \$4,348.3  | \$5,025.0                   | \$4,348.3  |
| <b>Total</b>                           |                              |            |                             |            |
| Beginning balance                      | \$52,401.0                   | \$61,394.3 | \$56,702.4                  | \$57,739.6 |

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|                    |            |            |             |             |
|--------------------|------------|------------|-------------|-------------|
| Inflows            | 2,547.2    | 3,514.3    | 9,525.8     | 11,781.8    |
| Outflows           | (4,194.6   | ) (3,022.0 | ) (14,711.3 | ) (10,781.1 |
| Net flows          | (1,647.4   | ) 492.3    | (5,185.5    | ) 1,000.7   |
| Market performance | (2,653.5   | ) (1,051.8 | ) (3,112.3  | ) 2,451.7   |
| Other (2)          | (162.4     | ) 42.8     | (466.9      | ) (314.4    |
| Ending balance     | \$47,937.7 | \$60,877.6 | \$47,937.7  | \$60,877.6  |

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(1) Includes assets under management of open-end and variable insurance funds.

(2) Represents open-end and closed-end mutual fund distributions, net of reinvestments, net flows of cash management strategies, net flows and market performance on structured products, which are a component of institutional accounts, and net flows from non-sales related activities such as asset acquisitions/(dispositions), marketable securities investments/(withdrawals) and the impact on assets from the use of leverage.

(3) Includes assets under management related to option strategies.

The following table summarizes our assets under management by asset class:

| Asset Class      | As of September 30, |            | Change        |        | % of Total |         | 2014 |   |
|------------------|---------------------|------------|---------------|--------|------------|---------|------|---|
|                  | 2015                | 2014       | 2015 vs. 2014 | %      | 2015       |         |      |   |
| (\$ in millions) |                     |            |               |        |            |         |      |   |
| Equity           | \$28,231.0          | \$35,573.6 | \$(7,342.6)   | (20.6) | % 58.9     | % 58.4  |      | % |
| Fixed income     | 15,580.6            | 16,671.0   | (1,090.4)     | (6.5)  | % 32.5     | % 27.4  |      | % |
| Alternatives (1) | 3,681.7             | 6,769.5    | (3,087.8)     | (45.6) | % 7.7      | % 11.1  |      | % |
| Other (2)        | 444.4               | 1,863.5    | (1,419.1)     | (76.2) | % 0.9      | % 3.1   |      | % |
| Total            | \$47,937.7          | \$60,877.6 | \$(12,939.9)  | (21.3) | % 100.0    | % 100.0 |      | % |

(1) Consists of long/short equity, real estate securities, master-limited partnerships and other.

(2) Consists of cash management and option strategies; as of December 31, 2014 only reflects option strategies. Cash management strategies were \$1,340.7 million as of September 30, 2014.

## Average Assets Under Management and Average Basis Points

The following table summarizes the average assets under management and the average management fees earned in basis points:

| Products                        | Three Months Ended September 30,                   |      |   |             |
|---------------------------------|--|------|---|-------------|
|                                 | Average Fees Earned<br>(expressed in basis points) |      | Average Assets Under Management<br>(\$ in millions) |             |
|                                 | 2015   | 2014 | 2015  | 2014        |
| Open-End Funds (1)              | 47.3   | 50.8 | \$ 31,627.1   | \$ 41,639.6 |
| Closed-End Funds                | 66.9   | 67.1 | 6,714.5   | 7,571.4     |
| Exchange Traded Funds           | 21.9   | —    | 269.9   | —           |
| Money Market Funds              | —  | —    | —   | 1,310.1     |
| Separately Managed Accounts (2) | 54.5   | 51.3 | 6,930.9   | 6,793.5     |
| Institutional Accounts (2)      | 34.2   | 34.8 | 5,082.4   | 4,483.6     |
| All Products                    | 49.4   | 50.6 | \$ 50,624.8   | \$ 61,798.2 |

  

| Products                        | Nine Months Ended September 30,                    |      |   |             |
|---------------------------------|--|------|---|-------------|
|                                 | Average Fees Earned<br>(expressed in basis points) |      | Average Assets Under Management<br>(\$ in millions) |             |
|                                 | 2015   | 2014 | 2015  | 2014        |
| Open-End Funds (1)              | 49.8   | 51.5 | \$ 33,692.5   | \$ 39,643.6 |
| Closed-End Funds                | 67.8   | 65.0 | 7,030.4   | 6,966.6     |
| Exchange Traded Funds           | 14.3   | —    | 160.9   | —           |
| Money Market Funds              | —  | —    | —   | 1,354.7     |
| Separately Managed Accounts (2) | 54.1   | 51.9 | 6,958.3   | 6,825.5     |
| Institutional Accounts (2)      | 34.9   | 35.6 | 5,001.6   | 4,538.6     |

|              |      |      |             |             |
|--------------|------|------|-------------|-------------|
| All Products | 51.3 | 50.7 | \$ 52,843.7 | \$ 59,329.0 |
|--------------|------|------|-------------|-------------|



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(1) Includes assets under management of open-end and variable insurance funds.

(2) Includes assets under management related to option strategies.

Average fees earned represent investment management fees paid net of fees to third party service providers for investment management related services and less the impact of consolidated sponsored investment products divided by average net assets. Mutual funds and exchange traded fund fees are calculated based on average daily or weekly net assets. Separately managed account fees are calculated based on the end of the preceding or current quarter's asset values or on an average of month-end balances. Institutional account fees are calculated based on an average of month-end balances or current quarter's asset values. Average fees earned will vary based on several factors, including the asset mix and reimbursements to funds.

The average fee rate earned for the three months ended September 30, 2015 decreased by 1.2 basis points compared to the same period in the prior year primarily due to a decrease in the open-end mutual fund fee rate. The 3.5 basis point decline in the open-end fund fee rate was primarily attributable to a negative \$4.6 million variable incentive fee from one mutual fund in the third quarter of 2015. Excluding the variable incentive fee, the open-end fund fee rate would have been 53.1 basis points. The average fee rate earned for the nine months ended September 30, 2015 increased by 0.6 basis points compared to the same period in the prior year primarily due to an increase in the closed-end fund fee rate related to a fund launch during the second quarter of 2014, combined with the liquidation of the low fee money market assets in October 2014, partially offset by the decrease mentioned above. For the three months ended September 30, 2015, average fees earned excluded \$1.2 million of subadvisory fees paid to an unaffiliated former subadvisor during the termination period. The average fee rate earned on separately managed accounts increased in the three and nine months ended September 30, 2015 as compared to the same periods in 2014 primarily due to net flows into high net worth accounts.

## Results of Operations

## Summary Financial Data

|                                   | Three Months Ended September 30, |          |                  |          | Nine Months Ended September 30, |           |                  |          |
|-----------------------------------|----------------------------------|----------|------------------|----------|---------------------------------|-----------|------------------|----------|
|                                   | 2015                             | 2014     | 2015 vs.<br>2014 | %        | 2015                            | 2014      | 2015 vs.<br>2014 | %        |
| (\$ in thousands)                 |                                  |          |                  |          |                                 |           |                  |          |
| Results of Operations             |                                  |          |                  |          |                                 |           |                  |          |
| Investment management fees        | \$64,891                         | \$78,960 | \$(14,069)       | (17.8)%  | \$204,254                       | \$225,289 | \$(21,035)       | (9.3)%   |
| Other revenue                     | 27,484                           | 38,881   | (11,397)         | (29.3)%  | 91,608                          | 113,172   | (21,564)         | (19.1)%  |
| Total revenues                    | 92,375                           | 117,841  | (25,466)         | (21.6)%  | 295,862                         | 338,461   | (42,599)         | (12.6)%  |
| Total operating expenses          | 69,253                           | 78,914   | (9,661)          | (12.2)%  | 231,990                         | 244,406   | (12,416)         | (5.1)%   |
| Operating income                  | 23,122                           | 38,927   | (15,805)         | (40.6)%  | 63,872                          | 94,055    | (30,183)         | (32.1)%  |
| Other (expense) income, net       | (20,281)                         | (6,136)  | (14,145)         | 230.5%   | (19,363)                        | 3,435     | (22,798)         | (663.7)% |
| Interest income, net              | 3,125                            | 2,399    | 726              | 30.3%    | 8,885                           | 5,375     | 3,510            | 65.3%    |
| Income before income taxes        | 5,966                            | 35,190   | (29,224)         | (83.0)%  | 53,394                          | 102,865   | (49,471)         | (48.1)%  |
| Income tax expense (benefit)      | 9,669                            | (1,805)  | 11,474           | (635.7)% | 28,360                          | 24,311    | 4,049            | 16.7%    |
| Net (loss) income                 | (3,703)                          | 36,995   | (40,698)         | (110.0)% | 25,034                          | 78,554    | (53,520)         | (68.1)%  |
| Noncontrolling interests          | 3,054                            | 345      | 2,709            | 785.2%   | 3,436                           | 267       | 3,169            | 1,186.9% |
| Net (loss) income attributable to | \$(649)                          | \$37,340 | \$(37,989)       | (101.7)% | \$28,470                        | \$78,821  | \$(50,351)       | (63.9)%  |

common  
stockholders

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## Revenues

Revenues by source are as follows:

|  | Three Months Ended September 30, |           |                  |         | Nine Months Ended September 30, |           |                  |         |
|--|----------------------------------|-----------|------------------|---------|---------------------------------|-----------|------------------|---------|
|  | 2015                             | 2014      | 2015 vs.<br>2014 | %       | 2015                            | 2014      | 2015 vs.<br>2014 | %       |
| (\$ in thousands)                      |                                  |           |                  |         |                                 |           |                  |         |
| Investment management fees             |                                  |           |                  |         |                                 |           |                  |         |
| Funds                                  | \$50,935                         | \$66,246  | \$(15,311)       | (23.1)% | \$162,913                       | \$186,696 | \$(23,783)       | (12.7)% |
| Separately managed accounts            | 9,572                            | 8,776     | 796              | 9.1%    | 28,275                          | 26,517    | 1,758            | 6.6%    |
| Institutional accounts                 | 4,384                            | 3,938     | 446              | 11.3%   | 13,066                          | 12,076    | 990              | 8.2%    |
| Total investment management fees       | 64,891                           | 78,960    | (14,069)         | (17.8)% | 204,254                         | 225,289   | (21,035)         | (9.3)%  |
| Distribution and service fees          | 15,587                           | 23,671    | (8,084)          | (34.2)% | 52,820                          | 70,049    | (17,229)         | (24.6)% |
| Administration and transfer agent fees | 11,614                           | 14,804    | (3,190)          | (21.5)% | 37,233                          | 41,819    | (4,586)          | (11.0)% |
| Other income and fees                  | 283                              | 406       | (123)            | (30.3)% | 1,555                           | 1,304     | 251              | 19.2%   |
| Total revenues                         | \$92,375                         | \$117,841 | \$(25,466)       | (21.6)% | \$295,862                       | \$338,461 | \$(42,599)       | (12.6)% |

## Investment Management Fees

Investment management fees are earned based on a percentage of assets under management and are paid pursuant to the terms of the respective investment management contracts, which generally require monthly or quarterly payments. Investment management fees decreased by \$14.1 million, or 17.8%, for the three months ended September 30, 2015 compared to the same period in the prior year primarily due to a \$11.2 billion, or 18.1%, decrease in average assets under management. The decrease in average assets under management for the three months ended September 30, 2015 compared to the same period in the prior year was due primarily to net outflows and market depreciation related to our open-end funds. For the three months ended September 30, 2015, investment management fees include a negative \$4.6 million variable incentive fee from one mutual fund.

Investment management fees decreased by \$21.0 million, or 9.3%, for the nine months ended September 30, 2015 compared to the same period in the prior year due to a \$6.4 billion, or 10.9%, decrease in average assets under management. The decrease in average assets under management for the nine months ended September 30, 2015 compared to the same period in the prior year was due primarily to net outflows and market depreciation related to our open-end funds.

## Distribution and Service Fees

Distribution and service fees, which are asset based fees earned from open-end mutual funds and variable insurance funds for distribution services, decreased by \$8.1 million or 34.2%, and \$17.2 million or 24.6%, for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year due to lower average open-end assets under management.

## Administration and Transfer Agent Fees

Administration and transfer agent fees represent fees earned for fund administration and shareholder services from our open-end mutual funds, variable insurance funds and certain of our closed-end funds. Fund administration and transfer agent fees decreased by \$3.2 million or 21.5%, and \$4.6 million or 11.0%, for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year due to lower average assets under management for which the Company provides fund administration and shareholder services.



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## Other Income and Fees

Other income and fees primarily represent contingent sales charges earned from investor redemptions of certain shares sold without a front-end sales charge and fees earned for the distribution of unaffiliated products. Other income and fees decreased \$0.1 million or 30.3% for the three months ended September 30, 2015 compared to the same period in the prior year primarily due to a decrease in contingent sales charges as a result of lower current quarter redemptions. Other income and fees increased \$0.3 million, or 19.2%, for the nine months ended September 30, 2015 compared to the same period in the prior year primarily due to an increase in contingent sales charges earned as a result of higher current year redemptions.

## Operating Expenses

Operating expenses by category were as follows:

|   | Three Months Ended September 30, |          |                  |          | Nine Months Ended September 30, |           |                  |          |
|---|----------------------------------|----------|------------------|----------|---------------------------------|-----------|------------------|----------|
|   | 2015                             | 2014     | 2015 vs.<br>2014 | %        | 2015                            | 2014      | 2015 vs.<br>2014 | %        |
| (\$ in thousands)                           |                                  |          |                  |          |                                 |           |                  |          |
| Operating expenses                          |                                  |          |                  |          |                                 |           |                  |          |
| Employment expenses                         | \$33,504                         | \$35,246 | \$(1,742)        | (4.9)%   | \$102,719                       | \$105,756 | \$(3,037)        | (2.9)%   |
| Distribution and other asset-based expenses | 21,717                           | 29,180   | (7,463)          | (25.6)%  | 69,900                          | 96,139    | (26,239)         | (27.3)%  |
| Other operating expenses                    | 12,285                           | 12,534   | (249)            | (2.0)%   | 54,298                          | 37,326    | 16,972           | 45.5%    |
| Restructuring and severance                 | —                                | 294      | (294)            | (100.0)% | —                               | 294       | (294)            | (100.0)% |
| Depreciation and amortization expense       | 1,747                            | 1,660    | 87               | 5.2%     | 5,073                           | 4,891     | 182              | 3.7%     |
| Total operating expenses                    | \$69,253                         | \$78,914 | \$(9,661)        | (12.2)%  | \$231,990                       | \$244,406 | \$(12,416)       | (5.1)%   |

## Employment Expenses

Employment expenses primarily consist of fixed and variable compensation and related employee benefit costs. Employment expenses for the three and nine months ended September 30, 2015 were \$33.5 million and \$102.7 million, respectively, which represented a decrease of \$1.7 million or 4.9%, and \$3.0 million or 2.9%, respectively, compared to the same periods in the prior year. The decrease was primarily due a reduction in profit and sales based variable compensation resulting from lower profits offset by an increase in fixed employment expenses related to higher staffing levels primarily at our affiliates, including Virtus ETF Solutions.

## Distribution and Other Asset-Based Expenses

Distribution and other asset-based expenses consist primarily of payments to third-party distribution partners for providing services to investors in our sponsored funds and payments to third party service providers for investment management related services. These payments are primarily based on percentages of assets under management or percentages of revenues. These expenses also include the amortization of deferred sales commissions related to up-front commissions on shares sold without a front-end sales charge to shareholders. The deferred sales commissions are amortized on a straight line basis over the periods in which commissions are generally recovered from distribution fee revenues and contingent sales charges received from shareholders of the funds upon redemption of their shares. Distribution and other asset-based expenses decreased by \$7.5 million, or 25.6%, in the three months ended September 30, 2015 compared to the same period in the prior year primarily due to lower average open-end assets under management. Distributions and other asset-based expenses decreased by \$26.2 million, or 27.3%, in the nine months ended September 30, 2015 compared to the same period in the prior year primarily due to (1) lower average open-end assets under management and (2) closed-end fund structuring costs of \$9.6 million incurred in connection with the launch of a new closed-end fund during the second quarter of 2014. No such costs were incurred in 2015. For

both the three and nine months ended September 30, 2015, the reduction in expense was partially offset by an increase in payments to third party service providers for investment management related services.

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Other Operating Expenses

Other operating expenses primarily consist of investment research and technology costs, professional fees, travel and distribution related costs, rent and occupancy expenses and other miscellaneous costs and includes other operating expenses of the Company's consolidated sponsored investment products. Other operating expenses for the three months ended September 30, 2015 decreased \$0.2 million, or 2.0%, to \$12.3 million as compared to \$12.5 million for the same period in the prior year. Other operating expenses of consolidated sponsored investment products for the three months ended September 30, 2015 decreased by \$0.1 million over the prior year.

Other operating expenses for the nine months ended September 30, 2015 increased \$17.0 million, or 45.5%, to \$54.3 million as compared to \$37.3 million for the same period in the prior year primarily due to the impact of a \$16.5 million loss contingency related to a previously disclosed regulatory matter. Other operating expenses of consolidated sponsored investment products increased by \$0.5 million over the prior year, reflecting the consolidation of one additional fund.

Depreciation and Amortization Expense

Depreciation and amortization expense consists primarily of the straight-line depreciation of furniture, equipment, and leasehold improvements as well as the amortization of acquired investment advisory contracts, recorded as definite-lived intangible assets, both over their estimated useful lives. Depreciation and amortization expense increased by \$0.1 million and \$0.2 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year due to higher depreciation on fixed assets offset by lower amortization of intangible assets.

Other (Expense) Income, net

Other (expense) income, net consists primarily of realized and unrealized gains and losses recorded on investments, investments of consolidated sponsored investment products and our consolidated investment product as well as other income including earnings from equity method investments.

Other (expense) income, net decreased during the three months ended September 30, 2015 by \$14.1 million compared to the same period in the prior year. Realized and unrealized gains on investments of consolidated sponsored investment products and the consolidated investment product were (\$18.4) million during the three months ended September 30, 2015, compared to (\$5.3) million during the same period in the prior year. Excluding investments of consolidated sponsored investment products and the consolidated investment product, other (expense) income, net increased during the three months ended September 30, 2015 by \$1.1 million compared to the same period in the prior year, primarily due to an increase in realized and unrealized losses on investments and a decrease in earnings on equity method investments.

Other (expense) income, net decreased during the nine months ended September 30, 2015 by \$22.8 million compared to the same period in the prior prior year. Realized and unrealized gains on investments of consolidated sponsored investment products and the consolidated investment product were (\$19.0) million during the nine months ended September 30, 2015, compared to \$1.2 million during the same period in the prior year. Excluding investments of consolidated sponsored investment products and the consolidated investment product, other (expense) income, net decreased during the nine months ended September 30, 2015 by \$2.6 million, compared to the same period in the prior year, primarily due to a decrease in realized and unrealized gains on investments partially offset by an increase in earnings on equity method investments.

Interest Income, net

Interest income, net consists of interest and dividend income earned on cash equivalents, investments and the investments of our consolidated sponsored investment products and our consolidated investment product. Interest income, net, increased \$0.7 million and \$3.5 million, or 30.3% and 65.3%, for the three and nine months ended September 30, 2015, respectively, compared to the same periods in the prior year. The increase in interest income, net, was primarily due to higher interest and dividend income earned on the investments of our consolidated sponsored investment products. The investments of the consolidated investment product were \$131.9 million at September 30, 2015. Investments of consolidated sponsored investment products grew \$70.3 million, or 29.2%, to \$311.4 million at September 30, 2015, from \$241.1 million at September 30, 2014.

Income Tax Expense

The provision for income taxes reflects U.S. federal, state and local taxes at an estimated effective tax rate of 53.1% and 23.6% for the nine months ended September 30, 2015 and 2014, respectively. The increase in the estimated effective tax rate was primarily due to valuation allowances related to the unrealized loss position on our marketable securities as well as a



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tax benefit recognized during the period ended September 30, 2014 related to the settlement of an audit of our 2011 federal corporate income tax return.

## Liquidity and Capital Resources

## Certain Financial Data

The following table summarizes certain key financial data relating to our liquidity and capital resources:

|                           | September 30,<br>2015 | December 31,<br>2014 | Change<br>2015 vs. 2014 | %      |    |
|---------------------------|-----------------------|----------------------|-------------------------|--------|----|
| (\$ in thousands)         |                       |                      |                         |        |    |
| Balance Sheet Data        |                       |                      |                         |        |    |
| Cash and cash equivalents | \$ 126,470            | \$ 202,847           | \$(76,377)              | (37.7) | )% |
| Investments               | 55,225                | 63,448               | (8,223)                 | (13.0) | )% |
| Deferred taxes, net       | 59,700                | 60,162               | (462)                   | (0.8)  | )% |
| Dividends payable         | 4,258                 | 4,270                | (12)                    | (0.3)  | )% |
| Total equity              | 539,330               | 563,352              | (24,022)                | (4.3)  | )% |

|                        | Nine Months Ended September<br>30, |             | Change        | %       |    |
|------------------------|------------------------------------|-------------|---------------|---------|----|
|                        | 2015                               | 2014        | 2015 vs. 2014 | %       |    |
| (\$ in thousands)      |                                    |             |               |         |    |
| Cash Flow Data:        |                                    |             |               |         |    |
| Provided by (Used In): |                                    |             |               |         |    |
| Operating Activities   | \$(56,951)                         | \$(102,288) | \$45,337      | (44.3)  | )% |
| Investing Activities   | (5,419)                            | (7,440)     | 2,021         | (27.2)  | )% |
| Financing Activities   | (12,087)                           | 11,947      | (24,034)      | (201.2) | )% |

## Overview

We maintained significant liquidity and capital during the nine months ended September 30, 2015. At September 30, 2015, we had \$126.5 million of cash and cash equivalents and \$40.1 million of investments in marketable securities compared to \$202.8 million of cash and cash equivalents and \$50.3 million of investments in marketable securities at December 31, 2014. We have additional liquidity available through a credit facility (“the Credit Facility”) that provides borrowing capacity of up to \$75.0 million and can be increased to \$125.0 million upon satisfaction of certain approval requirements by the lending group. At September 30, 2015, we had no outstanding borrowings under the Credit Facility.

## Short-Term Capital Requirements

Our short-term capital requirements, which we consider to be those capital requirements due within one year, include payment of annual incentive compensation, income tax payments and other operating expenses, primarily consisting of investment research and technology costs, professional fees, distribution and occupancy costs. Incentive compensation, which is one of the largest annual operating cash expenditures, is paid in the first quarter of the year. In the first quarter of 2015 and 2014, we paid approximately \$45.9 million and \$45.0 million, respectively, in incentive compensation earned during the years ended December 31, 2014 and 2013, respectively. Short-term capital requirements may also be affected by employee tax withholding payments related to the net share settlement of equity awards. The Company paid \$5.1 million and \$9.5 million in minimum employee tax withholding obligations related to net share settlements in the first nine months of 2015 and 2014, respectively. These net share settlements had the effect of share repurchases by the Company as they reduced the number of shares that otherwise would have been issued as a result of the vesting or exercise. The amount of employee tax withholdings we pay in future periods will vary based on our stock price, the number of equity awards net settled during the period and whether we and our employees elect to satisfy withholding taxes through net share settlement. Our liquidity could also be impacted by

certain contingencies, including any legal or regulatory settlements, described more fully in Note 12, Commitments and Contingencies within our condensed consolidated financial statements.

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### Other Uses of Capital

We expect that our main uses of cash will be to (i) invest in our organic growth, including our distribution efforts and closed-end fund launches; (ii) seed new investment strategies and make new investments to introduce new products or to enhance distribution access; (iii) return capital to stockholders through acquisition of shares of our common stock, payment of cash dividends on our common stock or other means; (iv) fund ongoing and potential investments in our infrastructure; and (v) invest in inorganic growth opportunities as they arise.

In February, May and August 2015, we paid cash dividends on our common stock in the amount of \$0.45 per share, totaling \$12.1 million. On August 16, 2015, our Board of Directors declared a quarterly cash dividend of \$0.45 per common share to be paid on November 13, 2015 to shareholders of record at the close of business on October 30, 2015. In addition, during the first nine months of 2015, we paid approximately \$45.0 million to repurchase a total of 368,468 common shares under the board authorized share repurchase program. During the first nine months of 2014, we paid approximately \$26.3 million to repurchase a total of 136,874 common shares.

In the third quarter of 2015, we seeded \$55.0 million into two new mutual funds and invested \$20.0 million in an entity that was created specifically to accumulate bank loan assets for securitization as a potential CLO that will be managed by our Newfleet affiliate. At September 30, 2015, we had total seed capital and CLO investments of \$276.8 million and \$19.3 million, respectively.

On October 21, 2015, the our board of directors authorized an additional 1,500,000 shares of common stock under the current share repurchase program. Upon authorization, total shares remaining available for repurchase were 1,756,091. Under the terms of the program, the Company may repurchase shares of its common stock from time to time at its discretion through open market repurchases and/or privately negotiated transactions, depending on price and prevailing market and business conditions. The program, which has no specified term, may be suspended or terminated at any time.

### Capital and Reserve Requirements

VP Distributors, LLC (“VPD”), a wholly-owned subsidiary of the Company, is a broker-dealer registered with the SEC and is therefore subject to certain rules regarding minimum net capital, as defined by those rules. VPD is required to maintain a ratio of “aggregate indebtedness” to “net capital,” as defined, which may not exceed 15 to 1 and must also maintain a minimum amount of net capital. Failure to meet these requirements could result in adverse consequences to us including additional reporting requirements, a lower required ratio of aggregate indebtedness to net capital or interruption of our business. At both September 30, 2015 and December 31, 2014, the ratio of aggregate indebtedness to net capital of our broker-dealer was below the maximum allowed, and its net capital was significantly greater than the required minimum.

### Balance Sheet

Cash and cash equivalents consist of cash and money market fund investments. Investments consist primarily of investments in our affiliated mutual funds. Consolidated sponsored investment products primarily represent investment products we sponsor and where we own a majority of the voting interest in the entity or we are the primary beneficiary of an investment product that is a variable interest entity. At September 30, 2015 and December 31, 2014, we had no debt outstanding that was a general obligation of the Company.

### Operating Cash Flow

Net cash used in operating activities of \$57.0 million for the nine months ended September 30, 2015 decreased by \$45.3 million from net cash used in operating activities of \$102.3 million in the same period in the prior year. The decrease was due primarily to lower net income, decreased excess tax benefits from stock-based compensation, decreased realized and unrealized gains on investments of consolidated sponsored investment products, decreased sales of trading securities, decreased purchases of investments of consolidated sponsored investment products, decreased accounts receivable, net and other assets and decreased accrued compensation and benefits, accounts payable, accrued liabilities and other liabilities. The decreases were partially offset by increased purchases of investments by the consolidated investment product, net.

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### Investing Cash Flow

Net cash used in investing activities consists primarily of capital expenditures for our business operations. Net cash used in investing activities of \$5.4 million for the nine months ended September 30, 2015 decreased by \$2.0 million from net cash used in investing activities of \$7.4 million in the same period for the prior year due to the decrease of \$3.4 million in the amount paid for asset acquisitions of equity method and other investments and the decrease in cash and cash equivalents as a result of the deconsolidation of certain consolidated sponsored investment products of \$0.4 million partially offset by increased capital expenditures of \$1.9 million.

### Financing Cash Flow

Cash flows used in financing activities consist primarily of return of capital through repurchases and dividends, withholding obligations for the net share settlement of employee share transactions and contributions to noncontrolling interests related to our consolidated sponsored investment products. Net cash used in financing activities decreased \$24.0 million to \$12.1 million for the nine months ended September 30, 2015 as compared to net cash provided by financing activities of \$11.9 million for the nine months ended September 30, 2015. The primary reason for the decrease was due to decreased payments made to settle minimum tax withholding obligations for the net share settlement of RSUs of \$4.4 million as well as decreased excess tax benefits from stock-based compensation of \$23.6 million. These decreases were partially offset by increased repurchases of our common stock of \$18.7 million, increased third-party contributions of \$13.9 million to the noncontrolling interests related to our consolidated sponsored investment products, increased borrowings of proceeds by the consolidated investment product of \$9.1 million and increased dividends paid of \$8.0 million during the first nine months of 2015 compared to the first nine months of 2014.

### Debt

Our Credit Facility, as amended and restated, has a five-year term and provides borrowing capacity of up to \$75.0 million with a \$7.5 million sub-limit for the issuance of standby letters of credit. In addition, the Credit Facility provides for a \$50.0 million increase provision conditioned on approval by the lending group. The Credit Facility is secured by substantially all of our assets. At September 30, 2015 and December 31, 2014, no amount was outstanding under the Credit Facility. As of September 30, 2015, we had the capacity to draw on the entire \$75.0 million available under the Credit Facility. The Credit Facility contains financial covenants with respect to leverage and interest coverage and requires us to pay an annual commitment fee on any unused portion. We were in compliance with all debt covenants as of September 30, 2015.

On August 17, 2015, the SPE, entered into a three-year term \$160.0 million financing transaction with a bank lending counterparty (the "Financing Facility"). The proceeds of the Financing Facility are intended to be used to purchase and warehouse commercial bank loan assets pending the securitization of such assets as a CLO. The size of the Financing Facility may be increased subject to the occurrence of certain events and the mutual consent of the parties. The Financing Facility is secured by all the assets of the SPV and initially bears interest at a rate of three-month LIBOR plus 1.25% per annum (with such interest rate, upon completion of the initial nine-month ramp-up period, increasing to three-month LIBOR plus 2.0% per annum). The Financing Facility contains standard covenant and event of default provisions (including loan-to-value ratio triggers) and foreclosure remedies upon such default in favor of the lender thereunder. The \$20.0 million the Company contributed to the SPE serves as first loss protection for the bank lending counterparty under the Financing Facility. In the event of default, the recourse to the Company is limited to its investment. At September 30, 2015 \$9.1 million was outstanding under the Financing Facility.

### Contractual Obligations

Our contractual obligations are summarized in our 2014 Annual Report on Form 10-K. As of September 30, 2015, there have been no material changes outside of the ordinary course in our contractual obligations since December 31, 2014.

### Critical Accounting Policies and Estimates

Our financial statements and the accompanying notes are prepared in accordance with Generally Accepted Accounting Principles, which require the use of estimates. Actual results will vary from these estimates. A discussion of our critical accounting policies and estimates is included in Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2014 Annual Report on Form 10-K. A complete description of our significant accounting policies is included in our 2014 Annual Report on Form 10-K. There were no changes in our critical accounting policies in the nine months ended September 30, 2015.

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Recently Issued Accounting Pronouncements

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

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk

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

We are also subject to market risk due to a decline in the market value of our investments, consisting primarily of marketable securities. At September 30, 2015, the fair value of marketable securities was \$298.9 million. Assuming a 10.0% increase or decrease in the fair value of marketable securities at September 30, 2015, our net income attributable to common stockholders would change by approximately \$29.6 million, and our total comprehensive income would change by approximately \$29.8 million, in each case for the nine months ended September 30, 2015.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. At September 30, 2015, we were exposed to interest rate risk as a result of holding investments in fixed-income sponsored funds. Assuming a 1.0% increase or decrease in interest rates, the fair value of our fixed income investments could change by an estimated \$4.7 million for the nine months ended September 30, 2015.

At September 30, 2015, we had no amounts outstanding under our Credit Facility. Amounts outstanding under the Credit Facility bear interest at an annual rate equal to, at our option, either LIBOR for interest periods of one, two, three or six months or an alternate base rate (as defined in the Credit Facility agreement), plus, in each case, an applicable margin, that ranges from 0.75% to 2.50%.

At September 30, 2015, we had \$9.1 million outstanding under the loan and security agreement of our consolidated investment product. Amounts outstanding under the loan and security agreement bear interest at an annual rate equal to LIBOR for interest periods of three months plus, in each case, an applicable margin, that ranges from 1.25% to 2.00%.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2015, the end of the period covered by this Quarterly Report on Form 10-Q.

Changes in Internal Controls over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f) under the Exchange Act) that occurred during the period covered by this Quarterly Report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Legal Matters

The Company is regularly involved in litigation and arbitration as well as examinations, inquiries and investigations by various regulatory bodies, including the SEC, involving its compliance with, among other things, securities laws, client investment guidelines, laws governing the activities of broker-dealers and other laws and regulations affecting its products and other activities. Legal and regulatory matters of this nature involve or may involve the Company’s activities as an employer, issuer of securities, investor, investment adviser, broker-dealer or taxpayer. In addition, in the normal course of business, the Company discusses matters with its regulators raised during regulatory examinations or is otherwise subject to their inquiry. These matters could result in censures, fines, penalties or other sanctions.

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



Regulatory Matter

As previously disclosed, in December 2014 the SEC announced a settlement with F-Squared Investments (“F-Squared”), an unaffiliated former subadviser, which settled charges that F-Squared had violated the federal securities laws as described in Investment Advisers Act Release No. 3988. The settlement related to F-Squared’s inaccurate performance information for the period of April 2001 through September 2008, including indices that certain Virtus mutual funds tracked

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beginning in September 2009 and January 2011. As part of the SEC's non-public, confidential investigation of this matter, the SEC staff informed the Company that it was inquiring into whether the Company had violated securities laws or regulations with respect to F-Squared's historical performance information. Although the Company has not received a Wells Notice in connection with the investigation, the Company has been in active discussions with the SEC staff and has reached an agreement in principle with the SEC staff to settle this matter. Under the terms of the proposed settlement, the Company would pay a total of \$16.5 million, which is consistent with the loss contingency previously recorded and disclosed by the Company. This agreement in principle is subject to review and approval by the Commission.

As referenced above, pursuant to ASC 450 - Loss Contingencies, the Company had previously recorded a total pre-tax loss contingency of \$16.5 million and a related potential income tax benefit of \$5.5 million for a net impact of \$11.0 million related to this matter; however, the Company cannot assure you that the Commission will approve the proposed settlement agreement, that any final settlement will not have different or additional material terms, that any associated loss will not exceed the aggregate loss contingency recorded or that a final resolution of this matter will be reached.

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

On February 20, 2015, a putative class action complaint alleging violation of the federal securities laws was filed by an individual shareholder against the Company and certain of the Company's current officers (the "defendants") in the United States District Court for the Southern District of New York. On April 21, 2015, three plaintiffs, including the original plaintiff, filed motions to be appointed lead plaintiff. On June 9, 2015, the court entered an order appointing Arkansas Teachers Retirement System lead plaintiff. On August 21, 2015, plaintiff filed a Consolidated Class Action Complaint (the "Consolidated Complaint") amending the originally filed complaint. The Consolidated Complaint was purportedly filed on behalf of all purchasers of the Company's common stock between January 25, 2013 and May 11, 2015 (the "Class Period"). The Consolidated Complaint alleges that during the Class Period, the defendants disseminated materially false and misleading statements and concealed material adverse facts relating to certain funds subadvised by F-Squared. The Consolidated Complaint alleges claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5. The plaintiff seeks to recover unspecified damages. The Company believes that the suit is without merit and intends to defend it vigorously. A motion to dismiss the Consolidated Complaint was filed on behalf of the Company and the other defendants on October 21, 2015. The Company believes that there is not a material loss that is probable and reasonably estimable related to this claim.

Mark Youngers v. Virtus Investment Partners, Inc. et al

On May 8, 2015, a putative class action complaint alleging violations of certain provisions of the federal securities laws was filed in the United States District Court for the Central District of California by an individual who alleges he is a former shareholder of one of the Virtus mutual funds formerly subadvised by F-Squared and formerly known as the AlphaSector Funds. The complaint purports to allege claims against the Company, certain of the Company's officers and affiliates, and certain other parties (the "defendants"). The complaint was purportedly filed on behalf of purchasers of the AlphaSector Funds between May 8, 2010 and December 22, 2014, inclusive (the "Class Period"). The complaint alleges that during the Class Period the defendants disseminated materially false and misleading statements and concealed or omitted material facts necessary to make the statements made not misleading. On June 7, 2015, a group of three individuals, including the original plaintiff, filed a motion to be appointed lead plaintiff. No other motions to be appointed lead plaintiff were filed. On July 27, 2015, the court granted the motion, appointing movants as lead plaintiff. Also, on July 27, 2015, the court issued an order to show cause requiring lead plaintiff to explain no later than July 31, 2015, why his claims should not be transferred and consolidated with the In re Virtus Investment Partners, Inc. Securities Litigation action discussed above. On October 1, 2015, plaintiff filed a First Amended Class

Action Complaint which, among other things, added a derivative claim for breach of fiduciary duty on behalf of Virtus Opportunities Trust. On October 19, 2015, the United States District Court for the Central District of California entered an order transferring the action to the Southern District of New York. The Company believes the plaintiff's claims asserted in the complaint are frivolous and intends to defend it vigorously. The Company believes that there is not a material loss that is probable and reasonably estimable related to this claim.

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## Item 1A. Risk Factors

There have been no material changes to our risk factors previously reported in our 2014 Annual Report on Form 10-K.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the first nine months of 2015, we repurchased a total of 368,468 shares of our common stock pursuant to the Board of Director's fourth quarter 2010 authorization. On December 10, 2014, our Board of Directors authorized an additional 500,000 shares of our common stock to be repurchased under the share repurchase program. As of September 30, 2015, 1.2 million shares of our common stock have been authorized to be repurchased under the program, and 256,091 shares remain available for repurchase. Under the terms of the program, we may repurchase shares of our common stock from time to time at our discretion through open market repurchases and/or privately negotiated transactions, depending on price and prevailing market and business conditions. The program is intended to generally offset dilution caused by shares issued under equity-based plans. The program, which has no specified term, may be suspended or terminated at any time.

The following table sets forth information regarding our share repurchases in each month during the quarter ended September 30, 2015:

| Month                | Total number of shares repurchased | Average price paid per share (1) | Total number of shares repurchased as part of publicly announced plans or programs (2) | Maximum number of shares that may yet be repurchased under the plans or programs (2) |
|----------------------|------------------------------------|----------------------------------|--|--|
| July 1—31, 2015      | —                                  | \$—                              | —  | 411,971  |
| August 1—31, 2015    | 82,663                             | \$ 116.29                        | 82,663   | 329,308  |
| September 1—30, 2015 | 73,217                             | \$ 101.83                        | 73,217   | 256,091  |
| Total                | 155,880                            |                                  | 155,880  |  |

(1) Average price paid per share is calculated on a settlement basis and excludes commissions.

(2) The share repurchases above were completed pursuant to a program announced in the fourth quarter of 2010 and expanded in December 2014.

There were no unregistered sales of equity securities during the period covered by this Quarterly Report. Shares of our common stock purchased by participants in our Employee Stock Purchase Plan were delivered to participant accounts via open market purchases at fair value by the third-party administrator under the plan. We do not reserve shares for this plan or discount the purchase price of the shares.

For the nine months ended September 30, 2015, we paid \$5.1 million in minimum employee tax withholding obligations related to employee share transactions.

On October 21, 2015, the Company's board of directors authorized an additional 1,500,000 shares of common stock under the current share repurchase program. Upon authorization, total shares remaining available for repurchase were 1,756,091. Under terms of the program, the Company may repurchase shares of its common stock from time to time at its discretion through open market repurchases and/or privately negotiated transactions, depending on price and prevailing market and business conditions. The program, which has no specified term, may be suspended or terminated at any time.



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| Item 6.<br>Exhibit<br>Number | Exhibits<br>Description  |
|------------------------------|--|
| 10.1                         | Amendment No. 4, dated as of August 12, 2015 to the Credit Agreement, dated as of September 10, 2012, among the Registrant, as Borrower, the lenders party thereto, PNC Bank, National Association, as Syndication Agent, and The Bank of New York Mellon, as Administrative Agent , the Swingline Lender, and as Issuing Bank   |
| 31.1                         | Certification of the Registrant’s Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 31.2                         | Certification of the Registrant’s Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 32.1                         | Certification of the Registrant’s Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 101                          | The following information formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets (Unaudited) as of September 30, 2015 and December 31, 2014, (ii) Condensed Consolidated Statements of Operations (Unaudited) for the three and nine months ended September 30, 2015 and 2014, (iii) Condensed Consolidated Statements of Comprehensive Income (Unaudited) for the three and nine months ended September 30, 2015 and 2014, (iv) Condensed Consolidated Statements of Cash Flows (Unaudited) for the nine months ended September 30, 2015 and 2014, (v) Condensed Consolidated Statements of Changes in Stockholders’ Equity for the nine months ended September 30, 2015 and 2014 and (vi) Notes to Condensed Consolidated Financial Statements (Unaudited). |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: October 30, 2015

VIRTUS INVESTMENT PARTNERS, INC.  
(Registrant)

By: /s/ Michael A. Angerthal

Michael A. Angerthal

Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)