

VIRTUS INVESTMENT PARTNERS, INC.

Form 10-Q

November 04, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

.. **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)

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Delaware
(State or other jurisdiction of
incorporation or organization)

95-4191764
(I.R.S. Employer
Identification No.)

100 Pearl Street, Hartford, CT 06103

(Address of principal executive offices) (Zip Code)

(800) 248-7971

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (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 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.

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 6,171,584 as of October 28, 2011.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****Virtus Investment Partners, Inc.****Condensed Consolidated Balance Sheets****(Unaudited)**

	September 30, 2011	December 31, 2010
<i>(\$ in thousands, except share data)</i>		
Assets		
Current Assets		
Cash and cash equivalents	\$ 39,225	\$ 43,948
Trading securities, at fair value	9,473	8,357
Available-for-sale securities, at fair value	2,261	1,916
Accounts receivable	25,853	21,136
Prepaid expenses and other assets	4,608	3,009
Total current assets	81,420	78,366
Furniture, equipment, and leasehold improvements, net	5,532	6,557
Intangible assets, net	50,124	52,977
Goodwill	4,795	4,795
Long-term investments (\$2,458 and \$2,340 at fair value, respectively) and other assets	9,491	6,216
Total assets	\$ 151,362	\$ 148,911
Liabilities and Stockholders' Equity		
Current Liabilities		
Accrued compensation and benefits	\$ 22,582	\$ 19,245
Accounts payable	4,498	4,229
Income taxes payable		61
Other accrued liabilities	5,211	5,938
Broker-dealer payable	5,705	4,687
Total current liabilities	37,996	34,160
Deferred taxes, net	8,785	8,785
Long-term debt	15,000	15,000
Lease obligations and other long-term liabilities	6,158	6,775
Total liabilities	67,939	64,720
Commitments and Contingencies (Note 11)		
Series B redeemable convertible preferred stock (stated at liquidation value), \$.01 par value, 45,000 shares authorized, 35,217 shares issued and outstanding, at September 30, 2011 and December 31, 2010, respectively	35,921	35,921
Stockholders' Equity	63	63

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Common stock, \$.01 par value, 1,000,000,000 shares authorized; 6,326,584 shares issued and 6,171,584 shares outstanding at September 30, 2011 and 6,271,821 shares issued and 6,251,821 shares outstanding at December 31, 2010		
Additional paid-in capital	915,160	912,942
Accumulated deficit	(858,748)	(863,503)
Accumulated other comprehensive loss	(179)	(308)
Treasury stock, at cost, 155,000 shares and 20,000 shares at September 30, 2011 and December 31, 2010, respectively	(8,794)	(924)
Total stockholders' equity	47,502	48,270
Total liabilities and stockholders' equity	\$ 151,362	\$ 148,911

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
<i>(\$ in thousands, except per share data)</i>				
Revenues				
Investment management fees	\$ 37,053	\$ 23,483	\$ 97,365	\$ 71,285
Distribution and service fees	11,435	7,353	32,295	20,763
Administration and transfer agent fees	6,363	4,328	17,353	10,516
Other income and fees	606	418	1,467	1,253
Total revenues	55,457	35,582	148,480	103,817
Operating Expenses				
Employment expenses	25,526	15,910	68,145	47,727
Distribution and administration expenses	23,250	8,217	46,694	23,347
Other operating expenses	7,436	6,742	22,722	21,159
Restructuring and severance	7	228	748	1,358
Depreciation and amortization	453	513	1,427	1,508
Intangible asset amortization	978	1,075	3,035	3,897
Total operating expenses	57,650	32,685	142,771	98,996
Operating Income (Loss)	(2,193)	2,897	5,709	4,821
Other Income (Expense)				
Realized and unrealized gain (loss) on trading securities	(1,576)	1,024	(737)	847
Other (expense) income	4	4	(208)	75
Total other income (expense), net	(1,572)	1,028	(945)	922
Interest Income (Expense)				
Interest expense	(189)	(228)	(592)	(770)
Interest and dividend income	81	52	192	299
Total interest expense, net	(108)	(176)	(400)	(471)
Income (Loss) Before Income Taxes	(3,873)	3,749	4,364	5,272
Income tax expense (benefit)	(1,095)	30	(391)	80
Net Income (Loss)	(2,778)	3,719	4,755	5,192
Preferred stockholder dividends	(705)	(785)	(2,113)	(2,585)
Allocation of earnings to preferred stockholders		(528)	(476)	(469)
Net Income (Loss) Attributable to Common Stockholders	\$ (3,483)	\$ 2,406	\$ 2,166	\$ 2,138

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Earnings (Loss) per share - Basic	\$ (0.56)	\$ 0.39	\$ 0.35	\$ 0.36
Earnings (Loss) per share - Diluted	\$ (0.56)	\$ 0.37	\$ 0.31	\$ 0.33
Weighted Average Shares Outstanding - Basic (in thousands)	6,219	6,103	6,222	5,931
Weighted Average Shares Outstanding - Diluted (in thousands)	6,219	6,538	6,895	6,466

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**Virtus Investment Partners, Inc.****Condensed Consolidated Statements of Cash Flows****(Unaudited)**

	Nine Months Ended September 30,	
	2011	2010
<i>(\$ in thousands)</i>		
Cash Flows from Operating Activities:		
Net income	4,755	\$ 5,192
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,427	1,508
Intangible asset amortization	3,035	3,897
Stock-based compensation	4,035	2,996
Amortization of deferred commissions	6,158	3,639
Payments of deferred commissions	(9,045)	(3,595)
Equity in losses (earnings) of affiliates	223	(66)
Realized and unrealized (gains) losses on trading securities	737	(847)
(Purchase) sale of trading securities, net	(1,853)	751
Changes in operating assets and liabilities:		
Accounts receivable	(4,717)	625
Prepaid expenses and other assets	(1,318)	(61)
Accounts payable and accrued liabilities	4,970	(1,076)
Income taxes payable	(835)	(568)
Other liabilities	(909)	356
Net cash provided by operating activities	6,663	12,751
Cash Flows from Investing Activities:		
Capital expenditures	(402)	(234)
Purchase of investment management contracts	(141)	(783)
Purchase of available-for-sale securities	(216)	(82)
Net cash used in investing activities	(759)	(1,099)
Cash Flows from Financing Activities:		
Payment of deferred financing costs		(362)
Contingent consideration for investment management contracts	(594)	
Preferred stock dividends paid	(2,113)	(2,700)
Repurchase of common shares	(7,870)	
Proceeds from exercise of stock options	670	31
Taxes paid related to net share settlement of RSUs	(720)	(407)
Net cash used in financing activities	(10,627)	(3,438)
Net (decrease) increase in cash	(4,723)	8,214
Cash and cash equivalents, beginning of period	43,948	28,620
Cash and Cash Equivalents, end of period	39,225	\$ 36,834
Supplemental Cash Flow Information:		
Interest paid	\$ 297	\$ 359

Income taxes paid	\$	444	\$	707
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See Notes to Condensed Consolidated Financial Statements.

Table of Contents**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, and its wholly-owned subsidiaries (which we refer to as affiliates) operate in the investment management industry.

The Company provides investment management services through its affiliates and unaffiliated sub-advisors to individual and institutional clients throughout the United States of America. Retail investment management services (including administrative services) are provided to individuals through products consisting of open-end mutual funds, closed-end funds, variable insurance funds and separately managed accounts. Separately managed accounts include accounts through intermediary programs that are sponsored and distributed by non-affiliated broker-dealers, and individual direct private client investment services that are sold and administered by our affiliates. Institutional investment management services are provided primarily to corporations, multi-employer retirement funds, public employee retirement systems and foundations, endowments and special purpose funds.

BMO Bankcorp, Inc. formerly known as Harris Bankcorp, Inc., (BMO Bankcorp) a subsidiary of the Bank of Montreal, owns 100% of the Company s outstanding shares of Series B Convertible Preferred Stock. See Note 13 Subsequent Events for additional information.

2. Basis of Presentation and Accounting Policies

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, these financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary for fair presentation of the Company s financial condition and results of operations. The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Material intercompany accounts and transactions have been eliminated. Operating results for the three and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

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, 2010 filed with the Securities and Exchange Commission (SEC). The Company s significant accounting policies, which have been consistently applied, are summarized in the Company s 2010 Annual Report on Form 10-K.

Certain prior period amounts in the Consolidated Statements of Cash Flows have been reclassified to conform to the current period presentation.

3. Intangible Assets

Intangible assets are summarized as follows:

<i>(\$ in thousands)</i>	September 30, 2011	December 31, 2010
Definite-lived intangible assets:		
Investment contracts	\$ 271,709	\$ 271,568
Accumulated amortization	(251,075)	(248,081)

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Definite-lived intangible assets, net	20,634	23,487
Indefinite-lived intangible assets	29,490	29,490
Total intangible assets, net	\$ 50,124	\$ 52,977

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Virtus Investment Partners, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

3. Intangible Assets (continued)

Activity in intangible assets is as follows:

<i>(\$ in thousands)</i>	Nine Months Ended September 30,	
	2011	2010
Intangible assets		
Balance, beginning of period	\$ 52,977	\$ 54,844
Purchases	141	339
Amortization	(2,994)	(3,897)
Balance, end of period	\$ 50,124	\$ 51,286

4. 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, 2011

<i>(\$ in thousands)</i>	Cost	Unrealized Loss	Unrealized Gain	Fair Value
Trading:				
Affiliated mutual funds and variable insurance funds	9,153	(1,350)	888	8,691
Equity securities	796	(14)		782
Available-for-sale:				
Affiliated closed-end funds	2,197	(58)	122	2,261
Total marketable securities	12,146	(1,422)	1,010	11,734

December 31, 2010

<i>(\$ in thousands)</i>	Cost	Unrealized Loss	Unrealized Gain	Fair Value
Trading:				
Affiliated mutual funds	\$ 8,368	\$ (1,169)	\$ 1,158	\$ 8,357
Available-for-sale:				

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Affiliated closed-end funds	1,981	(68)	3	1,916
Total marketable securities	\$ 10,349	\$ (1,237)	\$ 1,161	\$ 10,273

At September 30, 2011 and December 31, 2010, all of the Company's financial instruments that are measured at fair value, which consist solely of mutual funds and marketable securities, utilize a Level 1 valuation technique which, as defined in Accounting Standards Update (ASU) 820, *Fair Value Measurements and Disclosures*, are quoted prices in active markets for identical assets or liabilities.

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Virtus Investment Partners, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

5. 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 known at each interim period. On a quarterly basis, the estimated effective tax rate is adjusted, as appropriate, based upon changed facts and circumstances, if any, as compared to those forecasted at the beginning of the fiscal year and each interim period thereafter.

During the third quarter of 2011, the Internal Revenue Service (IRS) issued a favorable private letter ruling (PLR) to the Company concerning the treatment of a loss related to the dissolution of an inactive subsidiary. The Company had previously recorded approximately \$93.0 million of deferred tax assets, fully offset by a valuation allowance, related to the capital loss.

As a result of the PLR, the Company recharacterized the \$93.0 million of deferred tax assets previously reported as capital in character to \$89.0 million in deferred tax assets relating to net operating losses and intangible assets, with \$4.0 million being limited due to Internal Revenue Code Section 382 limitations. In addition, during the third quarter of 2011, the Company derecognized approximately \$32.0 million of previously recorded gross deferred tax assets and related offsetting valuation allowance to account for uncertainties related to the loss. At December 31, 2010, the Company had no unrecognized tax benefits. As of September 30, 2011, the unrecognized tax benefits of \$32.0 million, if recognized, would not have an impact on the effective tax rate due to the Company's valuation allowance recorded on its deferred tax assets. Based upon the timing and status of its current examinations by taxing authorities, the Company does not believe that it is reasonably possible that there could be a material change in the amount of unrecognized tax benefits occurring within the next twelve months.

The PLR relies on certain facts, assumptions and representations from management regarding the past conduct of the Company's businesses and other matters. If any of these facts, assumptions or representations are incorrect, the Company may not be able to rely on the ruling and could be subject to significant tax liabilities in the event we utilize the related deferred tax assets. Notwithstanding the PLR, the IRS could determine on audit that the ordinary loss should be treated as a capital loss if it is determined that any of these facts, assumptions or representations are not correct.

As of September 30, 2011, the Company has a valuation allowance offsetting all deferred tax assets. The future realization of the Company's deferred tax assets depends on the availability of sufficient future taxable income of the appropriate character. Management is required to evaluate whether a valuation allowance should be maintained against deferred tax assets based on the consideration of available evidence using a more likely than not standard at each reporting date. In making this evaluation, management weighs available positive and negative evidence. Management considers, among other factors, the Company's operating results, the global business environment and industry outlook. The deferred tax asset valuation allowance is maintained until sufficient positive evidence exists to support release of the allowance. Because evidence such as the Company's operating results during the most recent three-year period is afforded more weight than forecasted results for future periods, the Company's cumulative losses during this three-year period represents sufficient negative evidence regarding the need for maintaining a full valuation allowance at this time. It is reasonably possible that, if the Company continues to generate income over the near term, management may determine there is sufficient positive evidence as to the timing and amount of future taxable income to allow for the future release of the valuation allowance.

6. Stockholders' Equity

Treasury Stock

During the three and nine months ended September 30, 2011, the Company repurchased 50,000 and 135,000 common shares, respectively, at weighted-average prices per share of \$60.94 and \$58.24, respectively, under the Company's share repurchase program. The total cost of treasury shares acquired by the Company during the three and nine months ended September 30, 2011 was approximately \$3.1 million and \$7.9 million, respectively. There were no share repurchases made during the three and nine months ended September 30, 2010. At September 30, 2011, there were 195,000 shares of common stock remaining for repurchase under the share repurchase program.

Table of Contents**Virtus Investment Partners, Inc.****Notes to Condensed Consolidated Financial Statements****(Unaudited)****7. Comprehensive Income (Loss)**

The components of comprehensive income (loss) are as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
<i>(\$ in thousands)</i>				
Net income (loss)	\$ (2,778)	\$ 3,719	\$ 4,755	\$ 5,192
Unrealized gain on available-for-sale securities, net of tax	103	151	129	8
Total comprehensive income (loss)	\$ (2,675)	\$ 3,870	\$ 4,884	\$ 5,200

8. BMO Bankcorp Related Party Transactions

Effective as of December 31, 2008, BMO Bankcorp owns 100% of the Company's outstanding shares of Series B Convertible Preferred Stock. See Note 13 Subsequent Events for additional information. The Company acquired the rights to advise, distribute and administer the Insight Funds from Harris Investment Management, Inc. (Harris), a subsidiary of BMO Bankcorp, in May 2006, as further discussed in Note 11. Harris and BMO Bankcorp are related parties of the Company.

Sub-advisory investment management fees, pursuant to its strategic partnership agreement with Harris, which are netted against investment management fees in the Company's Condensed Consolidated Statements of Operations, and distribution and administration expenses paid or payable to Harris are summarized as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
<i>(\$ in thousands)</i>				
Sub-advisory investment management fees	\$ 657	\$ 870	\$ 2,274	\$ 3,165
Distribution and administration expenses	6	167	124	415
Total fees and expenses related to Harris	\$ 663	\$ 1,037	\$ 2,398	\$ 3,580

At September 30, 2011 and December 31, 2010, \$0.2 million and \$0.5 million, respectively, were payable to Harris and its affiliates related to sub-advisory investment management fees, and distribution and administration expenses.

9. Stock-based Compensation

The Company has an Omnibus Incentive and Equity Plan (the Plan) under which officers, employees, directors and consultants may be granted equity-based awards, including restricted stock units (RSUs), stock options and unrestricted shares of common stock. At September 30, 2011, 1,800,000 shares of common stock were authorized for issuance under the Plan, of which 637,234 remain available for issuance. Each RSU entitles the holder to one share of Virtus common stock when the restriction expires. RSUs generally have a term of two to three years and may

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be time-vested, performance-contingent or have a combination of both time and performance vesting features. Stock options generally vest over 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.

Board of Director Grants

During the nine months ended September 30, 2011 and 2010, 6,988 shares and 16,719 shares, respectively, of common stock were granted to those non-employee members of the Company's Board of Directors who receive compensation for his or her Board services as part of their annual retainer. The Company recognized \$0.4 million and \$0.4 million in stock-based compensation expense for the nine months ended September 30, 2011 and 2010 in connection with these grants.

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Virtus Investment Partners, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

9. Stock-based Compensation (continued)***Restricted Stock Units***

RSU activity for the nine months ended September 30, 2011 is summarized as follows:

	Number of shares	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2010	460,633	\$ 13.39
Granted	163,941	\$ 52.43
Forfeited	(7,996)	\$ 36.75
Settled	(42,736)	\$ 22.26
 Outstanding at September 30, 2011	 573,842	 \$ 23.41

Stock Options

Stock option activity for the nine months ended September 30, 2011 is summarized as follows:

	Number of shares	Weighted Average Exercise Price
Outstanding at December 31, 2010	386,190	\$ 20.83
Granted	10,454	\$ 55.30
Exercised	(16,646)	\$ 40.25
Forfeited	(5,120)	\$ 12.21
 Outstanding at September 30, 2011	 374,878	 \$ 21.05
 Vested and exercisable at September 30, 2011	 136,452	 \$ 36.14
 Options expected to vest at September 30, 2011	 226,505	 \$ 12.41

The weighted-average fair value of options granted during the nine months ended September 30, 2011 estimated as of the grant date using the Black-Scholes option valuation model was \$27.56 per common share. At September 30, 2011, outstanding stock options have an intrinsic value of \$12.2 million.

The fair value of stock options granted under the Company's stock plan was estimated on the grant date using the Black-Scholes option valuation model with the following assumptions:

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	2011	2010
Expected dividend yield	0.0%	0.0%
Expected volatility	47.2%	53.6%
Risk-free interest rate	2.5%	3.0%
Expected life	6.5 years	6.5 years

Table of Contents**Virtus Investment Partners, Inc.****Notes to Condensed Consolidated Financial Statements****(Unaudited)****9. Stock-based Compensation (continued)**

The Company estimates volatility based on the historical volatility of a peer group of publicly traded companies, which includes companies that are in the asset management industry, including competitors, because of the Company's limited history as an independent public company. The Company determines the expected life using the simplified method as allowed under generally accepted accounting principles.

During the three months ended September 30, 2011 and 2010, the Company recognized \$1.5 million and \$1.0 million, respectively, in total stock-based compensation expense. During the nine months ended September 30, 2011 and 2010, the Company recognized \$4.0 million and \$3.0 million, respectively, in total stock-based compensation expense. As of September 30, 2011, unamortized stock-based compensation expense for unvested RSUs and stock options was \$7.8 million and \$0.6 million, respectively, with weighted average remaining amortization periods of 1.1 years and 0.7 years, respectively.

The Company granted 73,310 performance contingent RSUs during the nine months ended September 30, 2011. During the three months ended September 30, 2011 and 2010, total stock-based compensation expense includes \$0.4 million and \$0.2 million, respectively, for performance-based awards as part of annual and long-term incentive compensation plans. During the nine months ended September 30, 2011 and 2010, total stock-based compensation expense includes \$0.7 million and \$0.3 million, respectively, for performance-based awards as part of annual and long-term incentive compensation plans.

10. Earnings per Share

Net income per common share reflects application of the two-class method. The Company's Series B preferred shareholders are currently entitled to participate in any dividends paid on shares of our common stock on a pro rata basis with the holders of our common stock. Under the two-class method, during periods of net income, participating securities are allocated a proportional share of net income. During periods of net loss, no effect is given to participating securities since they do not share in the losses of the Company. Participating securities have the effect of diluting both basic and diluted earnings per share during periods of net income.

Basic EPS excludes dilution for potential common stock issuances and is computed by dividing net income available to common shareholders 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 restricted stock units and common stock options using the treasury stock method.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
<i>(\$ in thousands, except share data)</i>				
Net Income (Loss)	\$ (2,778)	\$ 3,719	\$ 4,755	\$ 5,192
Preferred stockholder dividends	(705)	(785)	(2,113)	(2,585)
Allocation of earnings to preferred stockholders		(528)	(476)	(469)
Net Income (Loss) Attributable to Common Stockholders	\$ (3,483)	\$ 2,406	\$ 2,166	\$ 2,138

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Basic:

Weighted-average number of shares outstanding	6,219	6,103	6,222	5,931
Earnings (Loss) per share - basic	\$ (0.56)	\$ 0.39	\$ 0.35	\$ 0.36

Diluted:

Weighted-average number of shares outstanding	6,219	6,103	6,222	5,931
Plus: Incremental shares from assumed conversion of dilutive instruments		435	673	535

Adjusted weighted-average number of shares outstanding	6,219	6,538	6,895	6,466
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Earnings (Loss) per share - diluted	\$ (0.56)	\$ 0.37	\$ 0.31	\$ 0.33
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Virtus Investment Partners, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

10. Earnings per Share (continued)

For the three months ended September 30, 2011 non-participating securities (stock options) representing 248,909 shares of common stock were excluded from the above computations of weighted-average shares for diluted earnings per share because the effect would be antidilutive due to the net loss attributable to common stockholders for the period. For the nine months ended September 30, 2011, there were no non-participating securities (stock options) excluded from the above computations of weighted-average shares for diluted earnings per share. For the three and nine months ended September 30, 2010, non-participating securities (stock options) representing 137,273 shares of common stock were excluded from the above computations of weighted-average shares for diluted earnings per share due to the antidilutive effect of the securities exercise prices as compared to the average market price of the common shares during the period.

11. Commitments and Contingencies

Legal Matters

The Company is regularly involved in litigation and arbitration as well as examinations 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 may involve activities as an employer, issuer of securities, investor, investment advisor, broker-dealer or taxpayer. We cannot predict the ultimate outcome of such legal claims or matters or in certain instances provide reasonable ranges of potential losses. As of the date of this report, the Company believes that the outcomes of its legal or regulatory matters are not likely, either individually or in the aggregate, to have a material adverse effect on its consolidated financial condition. However, in the event of unexpected subsequent developments and given the inherent unpredictability of these legal and regulatory matters, there can be no assurance that the Company's 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.

Harris Strategic Partnership

In May 2006, the Company entered into a strategic partnership agreement with Harris, whereby Harris would be available to the Company as a sub-advisor for non-Harris funds. The agreement includes a provision that requires the Company to pay on the fifth anniversary of the closing date an amount equal to the lesser of (i) \$20.0 million, less certain cash flows paid to Harris from the closing date to the fifth anniversary of the closing date or (ii) \$35.0 million, adjusted by a factor representing the percentage of average assets that are sourced by Harris after five years. The Company has determined that no payment is required.

Inverness Partnerships

The Company has a 23% interest in Inverness/Phoenix Capital LLC (IPC). IPC is a joint venture with Inverness Management LLC, an unrelated third-party. IPC acts as a general partner to a private equity limited partnership, Inverness/Phoenix Partners LP (IPP), in which the Company also owns an interest. IPP is approaching the end of its contractual life and will be dissolved after the disposition of its single remaining portfolio investment.

At September 30, 2011 and December 31, 2010, the Company's investment in IPP was \$0.5 million and \$0.3 million, respectively. At December 31, 2010, the Company had a liability of \$1.2 million recorded in other accrued liabilities in the Company's Consolidated Balance Sheet to reflect a negative capital balance associated with the Company's general partnership interest in IPC for distributions previously received by the Company. On April 29, 2011 the Company satisfied its obligation under the partnership agreement to refund previously received distributions.

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Virtus Investment Partners, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

12. Recently Issued Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, and the International Accounting Standards Board issued International Financial Reporting Standard (IFRS) 13, *Fair Value Measurement* (together, the new guidance). The new guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. The new guidance changes some fair value measurement principles and disclosure requirements. The Company is required to adopt the amendments in this ASU prospectively in the quarter ending March 31, 2012. Early adoption is prohibited under this ASU. Adoption of this ASU is not expected to have an impact on the Company's financial position or results of operations.

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income*, which eliminates the current option to report other comprehensive income and its components in the statement of changes in equity and allows an entity to elect to present items of net income and other comprehensive income in one continuous statement or in two separate, but consecutive, statements. The Company is required to adopt this ASU as of January 1, 2012. Early adoption is permitted, but full retrospective application is required under this ASU. Adoption of this ASU is not expected to have an impact on the Company's financial position or results of operations.

In September 2011, the FASB issued ASU No. 2011-08, *Testing Goodwill for Impairment* (the revised standard) which provides entities with the option of performing a qualitative assessment to determine whether further impairment testing is necessary. The revised standard allows an entity to choose to perform the qualitative assessment on none, some, or all of its reporting units. The Company is required to adopt this ASU for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted if an entity has not yet issued its financial statements for the period that includes its annual test date. Adoption of this ASU is not expected to have an impact on the Company's financial position or results of operations.

13. Subsequent Event

On October 27, 2011, the Company entered into an agreement with BMO Bankcorp, the holder of all of the Company's outstanding shares of Series B Convertible Preferred Stock, to convert 35,217 shares of Series B Convertible Preferred Stock into 1,349,300 shares of common stock, at the original conversion rate. In connection with this agreement, the Company made a dividend payment of \$8.1 million, representing accrued dividends of \$0.9 million plus the net present value of dividend payments through October 31, 2014, the earliest date that the Company could have called for BMO Bankcorp to redeem or convert, at BMO Bankcorp's discretion, all of its preferred shares. As of October 31, 2011, the Series B Convertible Preferred Stock is no longer entitled to receive preferred dividends. Additionally, the Series B preferred shareholders lost the right to elect a Series B director to the Company's board of directors. As a result, the current Series B director resigned from the Company's board of directors effective October 31, 2011. Upon conversion, BMO Bankcorp has agreed that to the extent its holdings of common stock exceed 24% of the outstanding common stock solely by reason of the repurchase or redemption of common stock by the Company, the excess shares will be subject to an irrevocable proxy in favor of the Company to be voted in the same proportion as the votes cast by all shareholders other than BMO Bankcorp. The conversion is subject to regulatory approval.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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 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, anticipate, will, should, could, continue, project 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, 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 forward periods. All of our forward-looking statements contained in this Quarterly Report are as of the date of this Quarterly Report only. The Company can give no assurance that such expectations or forward-looking statements will prove to be correct. Actual results may differ materially.

Our business and our forward-looking statements involve substantial known and unknown risks and uncertainties, including the following: (a) the effects of changes and volatility in political, economic or industry conditions, the interest rate environment, or financial and capital markets; (b) any poor relative investment performance of our investment management strategies and any resulting outflows of assets; (c) mutual fund sales in any period may be through a limited number of financial intermediaries, from a limited number of investment strategies, and/or impacted by relative performance and the breadth and type of investment products we offer; (d) any lack of availability of additional financing, as may be needed, on satisfactory terms or at all; (e) any inadequate performance of third-party relationships; (f) the withdrawal of assets from under our management; (g) our ability to attract and retain key personnel in a competitive environment; (h) the ability of independent trustees of our mutual funds and closed-end funds and other clients to terminate their relationships with us; (i) the possibility that our goodwill or intangible assets could become impaired, requiring a charge to earnings; (j) the increased competition we face in our business, including competition related to investment products and fees; (k) potential adverse regulatory and legal developments; (l) the difficulty of detecting misconduct by our employees, sub-advisors and distribution partners; (m) changes in accounting standards or rules, including the impact of proposed rules which may be promulgated related to Rule 12b-1 fees; (n) the ability to satisfy the financial covenants under existing debt agreements; and (o) certain other risks and uncertainties described in our 2010 Annual Report on Form 10-K or in any of our filings with the Securities and Exchange Commission (SEC). An occurrence of, or any material adverse change in, one or more risk factors or risks referred to in this Quarterly Report or included in our 2010 Annual Report on Form 10-K or other periodic reports filed with the SEC could materially and adversely affect our operations, financial results, cash flows, prospects and liquidity.

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 under Investor Relations. You are urged to carefully consider all such factors.

The Company does 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, 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, such statements or disclosures will be deemed to modify or supersede such statements in this Quarterly Report.

Overview

Virtus Investment Partners, Inc. (the Company, we, us, our or Virtus), a Delaware corporation, and its wholly-owned subsidiaries (which we refer to as affiliates) operate a multi-manager asset management business.

We are a provider of investment management products and services to individuals and institutions. We operate a multi-manager investment management business, comprised of affiliated managers, each having its own distinct investment style, autonomous investment process and brand. We believe our customers value this approach, especially institutional customers who appreciate individual managers with distinctive cultures and styles.

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We provide our products in a number of forms and through multiple distribution channels. Our retail products include open-end mutual funds, closed-end funds, variable insurance funds and separately managed accounts. Our fund family of open-end funds is distributed primarily through intermediaries. Our closed-end funds trade on the New York Stock Exchange. Our variable insurance trust provides investment options in variable annuities and life insurance products distributed by third-party insurance companies. Retail separately managed accounts are comprised of intermediary programs, sponsored and distributed by unaffiliated brokerage firms, and private client accounts, which are offerings to the high net-worth clients of our affiliated managers. We also manage institutional accounts for corporations, multi-employer retirement funds, public employee retirement systems and foundations, endowments and special purpose funds. Our earnings are primarily driven by asset-based investment management fees charged on these various products. These fees are based on a percentage of assets under management and are calculated using daily or weekly average assets or assets at the end of the preceding quarter.

Financial Highlights

Total sales of \$3.3 billion in the third quarter of 2011 and \$8.6 billion in the first nine months of 2011 increased 111.6% and 109.6%, respectively, from total sales of \$1.6 billion and \$4.1 billion, respectively, in the third quarter and first nine months of 2010, driven by higher long-term mutual fund sales. Total sales and net flows exclude flows to cash management and structured products. Additional financial highlights include:

Long-term open-end mutual fund sales of \$2.4 billion in the third quarter of 2011 and \$7.1 billion in the first nine months of 2011 increased 118.2% and 131.3%, respectively, from long-term open-end mutual fund sales of \$1.1 billion and \$3.1 billion, respectively, in the third quarter and first nine months of 2010. Long-term open-end mutual fund sales remained balanced among asset strategies, and in the third quarter of 2011, 36.7% of sales were in domestic equity funds; 35.5% in fixed-income strategies; and 27.8% in international equity funds. The largest selling open-end mutual fund represented 30.0% of long-term open-end mutual fund sales for the nine months ended September 30, 2011, which compares favorably to the nine months ended September 30, 2010, when the largest selling open-end mutual fund represented 44.4% of long-term open-end mutual fund sales.

During the third quarter of 2011, we launched the Duff & Phelps Global Utility Income Fund Inc. (NYSE:DPG), a new closed-end fund managed by Duff & Phelps Investment Management Co., an affiliated manager. The fund added \$1.0 billion in assets and invests in domestic and foreign utility companies in the electric, gas, water, telecommunications, and midstream energy sectors.

Net flows of \$1.6 billion and \$4.4 billion, primarily from long-term mutual fund sales, for the third quarter and first nine months of 2011, respectively, offset by market depreciation of \$2.4 billion and \$0.9 billion for the third quarter and first nine months of 2011, respectively, contributed to a decrease of \$0.2 billion or 0.6% in assets under management to \$33.1 billion at September 30, 2011 from \$33.3 billion at June 30, 2011. For the nine months ended September 30, 2011, assets under management increased \$3.6 billion or 12.2% from \$29.5 billion at December 31, 2010. During the third quarter and first nine months of 2011 redemptions increased \$0.6 billion and \$1.1 billion, respectively, as compared with the same periods in 2010, consistent with industry-wide trends in redemptions during the financial market decline during the latter half of the third quarter of 2011.

Total revenue was \$55.5 million in the third quarter of 2011, an increase of 55.9% from \$35.6 million in the third quarter of 2010. Investment management fees increased 57.8% in the third quarter of 2011 to \$37.1 million from \$23.5 million in the third quarter of 2010. Total revenue increased in the third quarter of 2011 compared to the same period in the prior year as a result of increased mutual fund revenue related to higher average assets under management as well as the full quarter impact of the new affiliated Newfleet Multi-Sector portfolio management team as of the second quarter of 2011.

Operating income decreased \$5.1 million and increased \$0.9 million in the third quarter and first nine months of 2011 compared to the same periods in the prior year primarily driven by \$9.6 million of structuring fees and \$1.2 million of incremental sales compensation, both related to the DPG fund launch during the third quarter of 2011.

Assets Under Management

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At September 30, 2011, we managed \$33.1 billion in total assets representing an increase of \$6.0 billion or 22.0%, from the \$27.1 billion managed at September 30, 2010. Long-term assets under management, which exclude cash management products, were \$29.9 billion at September 30, 2011, an increase of 27.6% from September 30, 2010 and a decrease of 2.1% from June 30, 2011. Average assets under management, which generally correspond to our fee-earning asset levels, were \$32.6 billion for the nine months ended September 30, 2011, an increase of 26.6% from \$25.8 billion for the nine months ended September 30, 2010. The increase in assets under management for the nine months ended September 30, 2011 was due primarily to overall positive net flows of \$4.4 billion offset by market depreciation of \$0.9 billion. The positive net flows were primarily the result of strong sales of long-term mutual fund products and the launch of the DPG close-end fund. Money market assets declined for the nine months ended September

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30, 2011 as investors continued to shift assets out of these products due to historically low interest rates. The level of redemptions and market depreciation in assets under management for the third quarter of 2011 was consistent with the uncertainty of the securities markets during the same period.

Assets Under Management by Product

The following table summarizes our assets under management by product:

<i>(\$ in millions)</i>	As of September 30,	
	2011	2010
Retail Assets		
<i>Mutual fund assets</i>		
Money market open-end funds	\$ 2,407.8	\$ 2,704.6
Long-term open-end funds	14,952.0	10,698.5
Closed-end funds	5,318.7	4,300.2
Total mutual fund assets	22,678.5	17,703.3
<i>Variable insurance funds (1)</i>	1,244.7	
<i>Separately managed accounts</i>		
Intermediary sponsored programs	1,854.3	1,671.5
Private client accounts	1,837.7	1,954.5
Total managed account assets	3,692.0	3,626.0
Total retail assets	27,615.2	21,329.3
Institutional Assets		
Institutional accounts	4,422.3	4,845.9
Structured finance products	1,035.2	937.4
Total institutional assets	5,457.5	5,783.3
Total Assets Under Management	\$ 33,072.7	\$ 27,112.6
Average Assets Under Management	\$ 32,604.9	\$ 25,750.8

- (1) In November 2010, we became the advisor and distributor to \$1.5 billion of variable insurance funds. We previously acted as the sub-advisor under an institutional mandate with a third-party variable insurance trust (VIT) representing \$0.3 billion which was included in Institutional Assets as of September 30, 2010.

Assets Under Management by Asset Class

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

<i>(\$ in millions)</i>	As of September 30,			
	2011	%	2010	%
Asset Class				

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Equity	\$ 16,763.3	50.7%	\$ 12,272.3	45.3%
Fixed Income	13,129.1	39.7%	11,151.0	41.1%
Cash	3,180.3	9.6%	3,689.3	13.6%
Total	\$ 33,072.7	100.0%	\$ 27,112.6	100.0%

Table of Contents**Asset Flows by Product**

The following table summarizes our assets flows by product:

<i>(\$ in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Retail Products				
Mutual Funds - Long-term Open-end				
Beginning balance	\$ 15,471.7	\$ 9,398.0	\$ 11,801.2	\$ 8,902.2
Inflows	2,427.0	1,112.4	7,114.9	3,076.4
Outflows	(1,418.8)	(651.3)	(3,147.7)	(2,013.6)
Net flows	1,008.2	461.1	3,967.2	1,062.8
Market appreciation (depreciation)	(1,496.8)	878.2	(733.1)	813.3
Other (1)	(31.1)	(38.8)	(83.3)	(79.8)
Ending balance	\$ 14,952.0	\$ 10,698.5	\$ 14,952.0	\$ 10,698.5
Mutual Funds - Long-term Closed-end				
Beginning balance	\$ 4,545.1	\$ 4,015.2	\$ 4,321.2	\$ 4,256.9
Inflows	719.1		817.1	
Outflows				
Net flows	719.1		817.1	
Market appreciation (depreciation)	(205.6)	285.0	(79.7)	43.3
Other (1)	260.1		260.1	
Ending balance	\$ 5,318.7	\$ 4,300.2	\$ 5,318.7	\$ 4,300.2
Mutual Funds - Money Market				
Beginning balance	\$ 2,122.6	\$ 2,841.0	\$ 2,915.5	\$ 3,930.6
Other (1)	285.2	(136.4)	(507.7)	(1,226.0)
Ending balance	\$ 2,407.8	\$ 2,704.6	\$ 2,407.8	\$ 2,704.6
Variable Insurance Funds (2)				
Beginning balance	\$ 1,511.6	\$	\$ 1,538.5	\$
Inflows	7.6		19.5	
Outflows	(62.7)		(208.2)	
Net flows	(55.1)		(188.7)	
Market appreciation (depreciation)	(211.8)		(106.1)	
Other (1)			1.0	
Ending balance	\$ 1,244.7	\$	\$ 1,244.7	\$
Separately Managed Accounts (3)				
Beginning balance	\$ 4,091.0	\$ 3,451.6	\$ 3,833.0	\$ 3,551.8
Inflows	144.2	107.2	508.3	338.8
Outflows	(144.8)	(144.3)	(516.7)	(469.9)
Net flows	(0.6)	(37.1)	(8.4)	(131.1)
Market appreciation (depreciation)	(412.8)	191.3	(75.5)	192.8

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Other (1)		14.4	20.2	(57.1)	12.5
Ending balance	\$	3,692.0	\$ 3,626.0	\$ 3,692.0	\$ 3,626.0
Institutional Products (3)					
Institutional Accounts (2)					
Beginning balance	\$	5,582.3	\$ 5,413.7	\$ 5,063.9	\$ 4,798.2
Inflows		41.5	358.5	134.8	684.7
Outflows		(99.3)	(327.3)	(304.1)	(585.9)
Net flows		(57.8)	31.2	(169.3)	98.8
Market appreciation (depreciation)		(90.0)	205.6	76.0	355.7
Other (1)		23.0	132.8	486.9	530.6
Ending balance	\$	5,457.5	\$ 5,783.3	\$ 5,457.5	\$ 5,783.3
Total					
Beginning balance	\$	33,324.3	\$ 25,119.5	\$ 29,473.3	\$ 25,439.7
Inflows		3,339.4	1,578.1	8,594.6	4,099.9
Outflows		(1,725.6)	(1,122.9)	(4,176.7)	(3,069.4)
Net flows		1,613.8	455.2	4,417.9	1,030.5
Market appreciation (depreciation)		(2,417.0)	1,560.1	(918.4)	1,405.1
Other (1)		551.6	(22.2)	99.9	(762.7)
Ending balance	\$	33,072.7	\$ 27,112.6	\$ 33,072.7	\$ 27,112.6

- (1) Comprised of mutual fund dividends distributed, net flows on cash management strategies, market appreciation (depreciation) on the structured products, acquisitions (dispositions) of investment contracts, and financial leverage applied/(removed) to/(from) closed-end funds.

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- (2) In November 2010, we became the advisor and distributor to \$1.5 billion of variable insurance funds. We previously acted as the sub-advisor under an institutional mandate with a third-party VIT representing \$0.3 billion of variable insurance funds, which was included in Institutional Products as of September 30, 2010.
- (3) Excluding cash management products, Separately Managed Accounts and Institutional Products ending assets under management are as follows:

	As of September 30,	
	2011	2010
Separately Managed Accounts-Ending Assets	\$ 3,648.6	\$ 3,462.6
Institutional Products-Ending Assets	\$ 4,728.4	\$ 4,962.0

Average Fee Earning Assets Under Management and Average Basis Points

The following table summarizes average fee earning assets under management and average management fee basis points:

Products	Three Months Ended September 30,			
	Average Fees			
	Earned		Average Fee Earning Assets	
	(expressed in BPs)		(\$ in millions)	
	2011	2010	2011	2010
Mutual Funds - Long-term Open-end (1)	49	39	\$ 15,631.0	\$ 10,138.0
Mutual Funds - Long-term Closed-end (1)	56	53	5,004.7	4,178.2
Mutual Funds - Money Market (1)	3	5	2,443.7	2,877.6
Variable Insurance Funds (1)	44		1,394.2	
Separately Managed Accounts (2)	50	47	4,091.0	3,451.6
Institutional Products (2)	25	26	5,741.6	5,430.2
All Products	43	36	\$ 34,306.2	\$ 26,075.6

Products	Nine Months Ended September 30,			
	Average Fees			
	Earned		Average Fee Earning Assets	
	(expressed in BPs)		(\$ in millions)	
	2011	2010	2011	2010
Mutual Funds - Long-term (1)	44	40	\$ 14,334.5	\$ 9,771.8
Mutual Funds - Long-term Closed-end (1)	54	53	4,650.7	4,157.1
Mutual Funds - Money Market (1)	4	5	2,581.2	3,088.5
Variable Insurance Funds (1)	41		1,491.9	
Separately Managed Accounts (2)	50	48	3,976.4	3,548.6
Institutional Products (2)	27	31	5,570.2	5,184.8
All Products	40	37	\$ 32,604.9	\$ 25,750.8

- (1) Average fees earned are net of non-affiliated sub-advisory fees and fund reimbursements.
- (2) Excluding cash management products, Separately Managed Accounts and Institutional Products average assets under management are as follows:

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	Three Months Ended September 30,		Three Months Ended September 30,	
	2011	2010	2011	2010
Separately Managed Accounts-Average Assets	\$ 4,036.0	\$ 3,327.7	\$ 3,896.5	\$ 3,470.6
Separately Managed Accounts-Average Fees (in basis points)	51	49	50	50
Institutional Products-Average Assets	\$ 4,912.3	\$ 4,688.9	\$ 4,903.7	\$ 4,646.4
Institutional Products-Average Fees (in basis points)	29	29	30	37

The average fee earning assets under management and average fees earned expressed in basis points presented in the tables above are intended to provide information in the analysis of our asset based revenue. Fees for money market, long-term mutual funds and variable insurance funds are calculated based on average daily or weekly net assets. Average fees earned by open-end funds and variable insurance funds will vary based on several factors, including the asset mix and fund reimbursements. Separately managed

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accounts are generally calculated based on end of the preceding quarter's asset values. Institutional fees are calculated based on an average of month-end balances. Structured finance product fees, which are included in institutional products, are calculated based on a combination of the underlying cash flows and the principal value of the product.

Our product mix shifted towards higher fee earning assets for the three and nine months ended September 30, 2011 compared to the corresponding periods in the prior year as assets under management from equity products, which have higher fees, increased in proportion to our overall portfolio. In addition to the shift in product mix, average fees earned on long-term open end mutual funds increased for the third quarter of 2011 as compared to the prior year quarter due to the full quarter effect of the inclusion of the Newfleet Multi-Sector portfolio management team and the corresponding increase in investment management fees. The addition of the DPG closed-end fund assets contributed to the increase in average fees earned for long-term closed end funds for the three months ended September 30, 2011 as compared to the three months ended September 30, 2010. In addition, average fees earned on institutional products were higher during the nine months ended September 30, 2010 due to the recognition of \$1.3 million of revenue on structured finance products for subordinated management fees earned in prior periods that were not recognized as revenue until payment of such fees resumed in the first quarter of 2010 upon meeting collateral quality tests.

Results of Operations**Summary Financial Data**

<i>(\$ in thousands)</i>	Three Months Ended September 30,		Increase/ (Decrease)	Nine Months Ended September 30,		Increase/ (Decrease)
	2011	2010	2011 vs. 2010	2011	2010	2011 vs. 2010
Results of Operations						
Investment management fees	\$ 37,053	\$ 23,483	\$ 13,570	\$ 97,365	\$ 71,285	\$ 26,080
Other revenue	18,404	12,099	6,305	51,115	32,532	18,583
Total revenues	55,457	35,582	19,875	148,480	103,817	