

VIRTUS INVESTMENT PARTNERS, INC.

Form 10-Q

July 29, 2014

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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 June 30, 2014**

**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 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 9,120,254 as of July 23, 2014.

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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.

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

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
<i>(\$ in thousands, except share data)</i>		
<b>Assets:</b>		
Cash and cash equivalents	\$ 170,367	\$ 271,014
Cash of consolidated sponsored investment products	361	531
Cash pledged or on deposit of consolidated sponsored investment products	11,958	
Investments	65,099	37,258
Investments of consolidated sponsored investment products	207,279	139,054
Accounts receivable, net	54,194	50,166
Furniture, equipment, and leasehold improvements, net	7,646	7,219
Intangible assets, net	42,582	44,633
Goodwill	5,260	5,260
Deferred taxes, net	57,064	64,500
Other assets	15,584	15,724
Other assets of consolidated sponsored investment products	3,285	9,595
Total assets	\$ 640,679	\$ 644,954
<b>Liabilities and Equity</b>		
<b>Liabilities:</b>		
Accrued compensation and benefits	\$ 29,784	\$ 53,140
Accounts payable and accrued liabilities	33,131	29,912
Dividends payable	4,179	
Other liabilities	32,750	18,413
Other liabilities of consolidated sponsored investment products	16,011	8,435
Total liabilities	115,855	109,900
<b>Commitments and Contingencies (Note 10)</b>		
Redeemable noncontrolling interests	10,397	42,186
<b>Equity:</b>		
<b>Equity attributable to stockholders:</b>		
Common stock, \$0.01 par value, 1,000,000,000 shares authorized; 9,535,913 shares issued and 9,119,000 shares outstanding at June 30, 2014 and 9,455,521 shares issued	95	95

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and 9,105,521 shares outstanding at December 31, 2013		
Additional paid-in capital	1,128,064	1,135,644
Accumulated deficit	(563,740)	(605,221)
Accumulated other comprehensive income (loss)	48	(150)
Treasury stock, at cost, 416,913 shares at June 30, 2014 and 350,000 shares at December 31, 2013	(49,938)	(37,438)
Total equity attributable to stockholders	514,529	492,930
Noncontrolling interests	(102)	(62)
Total equity	514,427	492,868
Total liabilities and equity	\$ 640,679	\$ 644,954

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

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<i>(\$ in thousands, except per share data)</i>				
<b>Revenues</b>				
Investment management fees	\$ 74,537	\$ 64,475	\$ 146,329	\$ 122,252
Distribution and service fees	23,940	19,324	46,378	36,685
Administration and transfer agent fees	13,942	12,061	27,015	22,756
Other income and fees	330	280	898	615
<b>Total revenues</b>	<b>112,749</b>	<b>96,140</b>	<b>220,620</b>	<b>182,308</b>
<b>Operating Expenses</b>				
Employment expenses	35,481	32,878	70,510	65,289
Distribution and administration expenses	39,222	24,252	66,959	45,880
Other operating expenses	13,130	10,283	23,664	19,240
Other operating expenses of consolidated sponsored investment products	797	132	1,128	316
Restructuring and severance				203
Depreciation and other amortization	670	597	1,327	1,172
Amortization expense	947	1,116	1,904	2,226
<b>Total operating expenses</b>	<b>90,247</b>	<b>69,258</b>	<b>165,492</b>	<b>134,326</b>
<b>Operating Income</b>	<b>22,502</b>	<b>26,882</b>	<b>55,128</b>	<b>47,982</b>
<b>Other Income (Expense)</b>				
Realized and unrealized gain (loss) on investments, net	905	(223)	2,751	602
Realized and unrealized gain (loss) on investments of consolidated sponsored investment products, net	6,444	(3,156)	6,480	(2,784)
Other income (expense), net	189	(11)	340	(29)
<b>Total other income (expense), net</b>	<b>7,538</b>	<b>(3,390)</b>	<b>9,571</b>	<b>(2,211)</b>
<b>Interest Income (Expense)</b>				
Interest expense	(125)	(206)	(263)	(427)
Interest and dividend income	344	203	727	300
Interest and dividend income of investments of consolidated sponsored investment products	1,639	612	2,512	1,092

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Total interest income, net	1,858	609	2,976	965
<b>Income Before Income Taxes</b>	<b>31,898</b>	<b>24,101</b>	<b>67,675</b>	<b>46,736</b>
Income tax expense	12,106	9,318	26,116	17,768
<b>Net Income</b>	<b>19,792</b>	<b>14,783</b>	<b>41,559</b>	<b>28,968</b>
Noncontrolling interests	(249)	602	(78)	377
<b>Net Income Attributable to Common Stockholders</b>	<b>\$ 19,543</b>	<b>\$ 15,385</b>	<b>\$ 41,481</b>	<b>\$ 29,345</b>
<b>Earnings per share Basic</b>	<b>\$ 2.14</b>	<b>\$ 1.97</b>	<b>\$ 4.55</b>	<b>\$ 3.75</b>
<b>Earnings per share Diluted</b>	<b>\$ 2.10</b>	<b>\$ 1.91</b>	<b>\$ 4.44</b>	<b>\$ 3.64</b>
<b>Cash dividends declared per share</b>	<b>\$ 0.45</b>	<b>\$</b>	<b>\$ 0.45</b>	<b>\$</b>
<b>Weighted Average Shares Outstanding Basic (in thousands)</b>	<b>9,133</b>	<b>7,821</b>	<b>9,125</b>	<b>7,821</b>
<b>Weighted Average Shares Outstanding Diluted (in thousands)</b>	<b>9,325</b>	<b>8,058</b>	<b>9,343</b>	<b>8,073</b>

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

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<i>(\$ in thousands)</i>				
Net Income	\$ 19,792	\$ 14,783	\$ 41,559	\$ 28,968
<b>Other comprehensive income (loss), net of tax:</b>				
Foreign currency translation adjustment, net of tax of \$8 and \$11 for the three months ended June 30, 2014 and 2013, respectively and \$(7) and \$11 for the six months ended June 30, 2014 and 2013, respectively	(11)	(18)	13	(18)
Unrealized gain (loss) on available-for-sale securities, net of tax of \$(75) and \$57 for the three months ended June 30, 2014 and 2013, respectively and \$(115) and \$178 for the six months ended June 30, 2014 and 2013, respectively	122	(94)	185	139
Other comprehensive income (loss)	111	(112)	198	121
Comprehensive income	19,903	14,671	41,757	29,089
Comprehensive (income) loss attributable to noncontrolling interests	(249)	602	(78)	377
Comprehensive income attributable to common stockholders	\$ 19,654	\$ 15,273	\$ 41,679	29,466

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

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

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2014</b>	<b>2013</b>
<i>(\$ in thousands)</i>		
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 41,559	\$ 28,968
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation expense, intangible asset and other amortization	3,340	3,503
Stock-based compensation	4,510	4,044
Excess tax benefits from stock-based compensation	(583)	
Amortization of deferred commissions	9,578	6,165
Payments of deferred commissions	(8,490)	(9,088)
Equity in (earnings) losses of equity method investments	(61)	18
Realized and unrealized gains on trading securities	(2,751)	(602)
Realized and unrealized (gains) losses on investments of consolidated sponsored investment products	(6,666)	2,784
Sale of trading securities, net	20,576	736
Purchase of investments by consolidated sponsored investment products, net	(150,473)	(13,798)
Sale of securities sold short by consolidated sponsored investment products, net	10,501	
Deferred income taxes	7,314	16,869
Changes in operating assets and liabilities:		
Cash pledged or on deposit of consolidated sponsored investment products	(11,958)	
Accounts receivable, net and other assets	(5,022)	(8,301)
Other assets of consolidated sponsored investment products	4,455	(1,294)
Accrued compensation and benefits, accounts payable, accrued liabilities and other liabilities	(5,306)	(8,547)
Other liabilities of consolidated sponsored investment products	(1,606)	719
Net cash (used in) provided by operating activities	(91,083)	22,176
<b>Cash Flows from Investing Activities:</b>		
Capital expenditures	(1,459)	(1,271)
Acquisition of equity method investee		(3,364)
Change in cash and cash equivalents of consolidated sponsored investment products due to deconsolidation	(366)	(734)
Purchase of available-for-sale securities	(204)	(96)
Net cash used in investing activities	(2,029)	(5,465)

<b>Cash Flows from Financing Activities:</b>		
Contingent consideration paid for acquired investment management contracts		(285)
Repurchase of common shares	(12,500)	(14,966)
Proceeds from exercise of stock options	391	361
Taxes paid related to settlement of employee share transactions	(9,271)	(7,172)
Excess tax benefits from stock-based compensation	583	
Contributions of noncontrolling interests, net	13,092	12,790
Net cash used in financing activities	(7,705)	(9,272)
Net (decrease) increase in cash and cash equivalents	(100,817)	7,439
Cash and cash equivalents, beginning of period	271,545	63,446
<b>Cash and Cash Equivalents, end of period</b>	<b>\$ 170,728</b>	<b>\$ 70,885</b>
Non-Cash Financing Activities:		
Satisfaction of accrued compensation through the issuance of RSU s	\$ 849	\$ 209
Decrease to noncontrolling interest due to deconsolidation of sponsored investment products, net	\$ (45,003)	\$ (6,187)
Dividend payable	\$ 4,179	\$

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)

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Attributed To Stockholder	Non- controlling Interests	Total Equity	Redeem Non- controll	
	Shares	Par Value			Shares	Amount			Interests	
<i>(in thousands)</i>										
<b>Balances at September 30, 2012</b>	7,826,674	\$ 81	\$ 942,825	\$(680,411)	245,000	\$(17,734)	\$ 244,474	\$ (3)	\$ 244,471	\$ 3,111
Net income (loss)				29,345			29,345	(32)	29,313	(3)
Unrealized gain on securities available-for-sale				139			139		139	
Translation adjustment due to diversity of controlling interests, net				(18)			(18)		(18)	6,600
Repurchase of common shares	(80,000)				80,000	(14,966)	(14,966)		(14,966)	
Issuance of common stock related to employee stock purchase plans	74,159		864				864		864	
Compensation expense paid on stock-based incentive plans			(7,172)				(7,172)		(7,172)	
Compensation expense on stock-based incentive plans			3,750				3,750		3,750	
<b>Balances at September 30, 2013</b>	7,820,833	\$ 81	\$ 940,267	\$(651,066)	325,000	\$(32,700)	\$ 256,416	\$ (35)	\$ 256,381	\$ 9,411
<b>Balances at September 30, 2013</b>	9,105,521	\$ 95	\$ 1,135,644	\$(605,221)	350,000	\$(37,438)	\$ 492,930	\$ (62)	\$ 492,868	\$ 42,111
Net income (loss)				41,481			41,481	(40)	41,441	1,100
				185			185		185	

unrealized											
on securities											
available-for-sale											
foreign currency											
translation											
investment				13				13			13
activity of											
controlling											
interests, net											(31,9
of dividends											
received			(4,179)					(4,179)			(4,179)
purchase of											
common shares	(66,913)				66,913	(12,500)		(12,500)			(12,500)
in exchange of											
common stock											
issued to											
employee stock											
purchase	80,392		954					954			954
costs paid on											
stock-based											
compensation			(9,271)					(9,271)			(9,271)
stock-based											
compensation			4,333					4,333			4,333
less tax											
benefits from											
stock-based											
compensation			583					583			583
<b>balances at</b>											
<b>September 30, 2014</b>	9,119,000	\$ 95	\$ 1,128,064	\$ (563,740)	\$ 48	416,913	\$ (49,938)	\$ 514,529	\$ (102)	\$ 514,427	\$ 10,3

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 wholly-owned 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 and separately managed accounts. Separately managed accounts are offered through intermediary programs that are sponsored and distributed by unaffiliated broker-dealers and individual direct managed account investment services that are provided by the Company. Institutional investment management services are provided primarily to corporations, multi-employer retirement funds, employee retirement systems, foundations and endowments.

**2. Basis of Presentation and Significant 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 ( 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 fair statement of the Company's financial condition and results of operations. Operating results for the six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

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. 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 Note 11 for additional information related to the consolidation of sponsored investment products.) 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 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 the equity holders. If an entity has either of these characteristics, it is considered a VIE and 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, 2013 (the 2013 Annual Report on Form 10-K ) filed with the Securities and Exchange

Commission ( SEC ). The Company's significant accounting policies, which have been consistently applied, are summarized in the 2013 Annual Report on Form 10-K.

Effective December 31, 2013, the Company changed the presentation of its Consolidated Balance Sheets from a classified basis, which distinguishes between current and long-term assets and liabilities, to an unclassified basis, which has no such distinction. There were no changes to the Condensed Consolidated Balance Sheets that impacted the Condensed Consolidated Statements of Operations. Amounts in the prior year's Condensed Consolidated Statements of Cash Flows have been recast to conform to the current year's presentation.

**Table of Contents****3. Intangible Assets, Net**

Intangible assets, net are summarized as follows:

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
<i>(\$ in thousands)</i>		
<b>Definite-lived intangible assets:</b>		
Investment contracts	\$ 157,672	\$ 157,882
Accumulated amortization	(147,506)	(145,665)
<b>Definite-lived intangible assets, net</b>	<b>10,166</b>	<b>12,217</b>
Indefinite-lived intangible assets	32,416	32,416
<b>Total intangible assets, net</b>	<b>\$ 42,582</b>	<b>\$ 44,633</b>

Activity in intangible assets, net is as follows:

	<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
<i>(\$ in thousands)</i>		
<b>Intangible assets, net</b>		
Balance, beginning of period	\$ 44,633	\$ 48,711
Amortization	(2,051)	(2,105)
<b>Balance, end of period</b>	<b>\$ 42,582</b>	<b>\$ 46,606</b>

**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 11, at June 30, 2014 and December 31, 2013 are as follows:

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
<i>(\$ in thousands)</i>		
Marketable securities	\$ 56,403	\$ 28,968
Equity method investments	4,150	4,070
Nonqualified retirement plan assets	4,546	4,220
<b>Total investments</b>	<b>\$ 65,099</b>	<b>\$ 37,258</b>

**Marketable Securities**

The Company's marketable securities consist of both trading and available-for-sale securities. The composition of the Company's marketable securities is summarized as follows:

**June 30, 2014**

	<b>Cost</b>	<b>Unrealized Loss</b>	<b>Unrealized Gain</b>	<b>Fair Value</b>
<i>(\$ in thousands)</i>				
<b>Trading:</b>				
Sponsored funds	\$ 40,403	\$ (453)	\$ 4,031	\$ 43,981
Equity securities	7,911		1,322	9,233
<b>Available-for-sale:</b>				
Sponsored funds	3,019	(95)	265	3,189
<b>Total marketable securities</b>	<b>\$ 51,333</b>	<b>\$ (548)</b>	<b>\$ 5,618</b>	<b>\$ 56,403</b>

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	Cost	Unrealized Loss	Unrealized Gain	Fair Value
<i>(\$ in thousands)</i>				
<b>Trading:</b>				
Sponsored funds	\$ 16,079	\$ (704)	\$ 2,529	\$ 17,904
Equity securities	7,043		1,336	8,379
<b>Available-for-sale:</b>				
Sponsored funds	2,815	(145)	15	2,685
<b>Total marketable securities</b>	<b>\$ 25,937</b>	<b>\$ (849)</b>	<b>\$ 3,880</b>	<b>\$ 28,968</b>

For the three months ended June 30, 2014 and 2013, the Company recognized realized gains of \$3.6 million and \$0.2 million, respectively, and \$4.5 million and \$0.3 million for the six months ended June 30, 2014, respectively, on trading securities.

**5. Fair Value Measurements**

The Company's assets and liabilities measured at fair value, excluding the assets and liabilities of consolidated sponsored investment products discussed in Note 11, on a recurring basis as of June 30, 2014 and December 31, 2013 by fair value hierarchy level were as follows:

**June 30, 2014**

	Level 1	Level 2	Level 3	Total
<i>(\$ in thousands)</i>				
<b>Assets</b>				
Cash equivalents	\$ 167,586	\$	\$	\$ 167,586
<b>Marketable securities trading:</b>				
Sponsored funds	43,981			43,981
Equity securities	9,233			9,233
<b>Marketable securities available for sale:</b>				
Sponsored funds	3,189			3,189
<b>Other investments:</b>				
Nonqualified retirement plan assets	4,546			4,546
<b>Total assets measured at fair value</b>	<b>\$ 228,535</b>	<b>\$</b>	<b>\$</b>	<b>\$ 228,535</b>

**December 31, 2013**

Level 1	Level 2	Level 3	Total
---------	---------	---------	-------

(\$ in thousands)

<b>Assets</b>			
Cash equivalents	\$ 270,262	\$	\$ 270,262
<b>Marketable securities trading:</b>			
Sponsored funds	17,904		17,904
Equity securities	8,379		8,379
<b>Marketable securities available for sale:</b>			
Sponsored funds	2,685		2,685
<b>Other investments:</b>			
Nonqualified retirement plan assets	4,220		4,220
<b>Total assets measured at fair value</b>	<b>\$ 303,450</b>	<b>\$</b>	<b>\$ 303,450</b>

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

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

Transfers into and out of levels are reflected when significant inputs, including market inputs or performance attributes, used for the fair value measurement 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 of certain equity method investments no longer represents fair value. There were no transfers between Level 1 and Level 2 during the six months ended June 30, 2014 or 2013.

**6. Treasury Stock and Dividends**

During the six months ended June 30, 2014 and 2013, the Company repurchased 66,913 and 80,000 common shares, respectively, at a weighted average price of \$186.77 and \$187.03 per share, respectively, plus transaction costs for a total cost of approximately \$12.5 million and \$15.0 million, respectively. The Company has repurchased a total of 416,913 shares of common stock at a weighted average price of \$119.74 per share plus transaction costs for a total cost of \$49.9 million under its share repurchase program. At June 30, 2014, there were 283,087 shares of common stock available to repurchase under the Company's current authorization through the share repurchase program.

On May 15, 2014, the Board of Directors approved a cash dividend on the Company's common stock in the amount of \$0.45 per share to stockholders of record as of July 31, 2014, to be paid on August 14, 2014. The total dividend to be paid is approximately \$4.2 million and is included in liabilities in the condensed consolidated balance sheet at June 30, 2014.

**7. Accumulated Other Comprehensive Income**

The changes in accumulated other comprehensive income, by component, for the six months ended June 30, 2014 and 2013 were as follows:

<b>Unrealized Gains and (Losses) on Securities Available-for-</b>	<b>Foreign Currency Translation Adjustments</b>
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	<b>Sale</b>	
<i>(\$ in thousands)</i>		
Balance December 31, 2013	\$ (231)	\$ 81
Unrealized net gains on investments, net of tax of (\$115)	185	
Foreign currency translation adjustments, net of tax of \$7		13
Amounts reclassified from accumulated other comprehensive income		
<b>Net current-period other comprehensive income</b>	<b>185</b>	<b>13</b>
<b>Balance June 30, 2014</b>	<b>\$ (46)</b>	<b>\$ 94</b>

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<i>(\$ in thousands)</i>	<b>Unrealized Gains and (Losses) on Securities Available-for- Sale</b>	<b>Foreign Currency Translation Adjustments</b>
Balance December 31, 2012	\$ (287)	\$
Unrealized net gains on investments, net of tax of \$178	139	
Foreign currency translation, net of tax of \$11		(18)
Amounts reclassified from accumulated other comprehensive income		
<b>Net current-period other comprehensive income</b>	139	(18)
<b>Balance June 30, 2013</b>	<b>\$ (148)</b>	<b>\$ (18)</b>

**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 June 30, 2014, 433,130 shares of common stock remain 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 six months ended June 30, 2014 are summarized as follows:

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Outstanding at December 31, 2013	233,763	\$ 87.97
Granted	70,302	\$ 183.98
Forfeited	(10,966)	\$ 132.15
Settled	(115,084)	\$ 60.74
<b>Outstanding at June 30, 2014</b>	<b>178,015</b>	<b>\$ 140.77</b>

For the six months ended June 30, 2014 and 2013, a total of 49,819 and 36,427 RSUs, respectively, were withheld by the Company as a result of net share settlements to satisfy employee tax withholding obligations. During the six months ended June 30, 2014 and 2013, the Company paid \$9.3 million and \$7.2 million, respectively, in employee tax withholding obligations related to employee share transactions during each period. 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 or exercise.

***Stock Options***

Stock option activity for the six months ended June 30, 2014 are summarized as follows:

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>
Outstanding at December 31, 2013	190,160	\$ 20.11
Granted		\$
Exercised	(14,270)	\$ 28.33
Forfeited		\$
<b>Outstanding at June 30, 2014</b>	<b>175,890</b>	<b>\$ 19.44</b>

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The Company recognized total stock compensation expense of \$2.9 million and \$2.6 million, respectively, and \$4.5 million and \$4.0 million, respectively, for the three and six months ended June 30, 2014 and 2013. As of June 30, 2014 and 2013, unamortized stock-based compensation expense for unvested RSUs was \$16.3 million and \$13.3 million, with a weighted-average remaining amortization period of 1.6 years and 1.5 years, respectively. There was no unamortized stock-based compensation expense related to stock options as of June 30, 2014 as all outstanding options were fully vested and unamortized stock-based compensation expense related to stock options was \$0.1 million with a weighted-average remaining amortization period of 0.6 years at June 30, 2013.

**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.

The computation of basic and diluted EPS is as follows:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<i>(\$ in thousands, except per share amounts)</i>				
Net Income	\$ 19,792	\$ 14,783	\$ 41,559	\$ 28,968
Noncontrolling interests	(249)	602	(78)	377
<b>Net Income Attributable to Common Stockholders</b>	<b>\$ 19,543</b>	<b>\$ 15,385</b>	<b>\$ 41,481</b>	<b>29,345</b>
<b>Shares (in thousands):</b>				
Basic: Weighted-average number of shares outstanding	9,133	7,821	9,125	7,821
Plus: Incremental shares from assumed conversion of dilutive instruments	192	237	218	252
<b>Diluted: Weighted-average number of shares outstanding</b>	<b>9,325</b>	<b>8,058</b>	<b>9,343</b>	<b>8,073</b>
Earnings per share - basic	\$ 2.14	\$ 1.97	\$ 4.55	\$ 3.75
Earnings per share - diluted	\$ 2.10	\$ 1.91	\$ 4.44	\$ 3.64
Cash dividends declared per share	\$ 0.45	\$	\$ 0.45	\$

For the three months ended June 30, 2014, there were 9,275 instruments excluded from the above computation of weighted-average shares for diluted EPS because the effect would be anti-dilutive. For the three and six months ended June 30, 2013, respectively, there were no instruments excluded from the above computation of weighted-average shares for diluted EPS.

**10. 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 adviser, broker-dealer or taxpayer. The Company 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

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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.

**11. Consolidated Sponsored Investment Products**

In the normal course of its business, the Company sponsors various types of 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 variable interest entity. 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. If the Company were to liquidate, these investments would not be available to the general creditors of the Company. The Company does not consider cash and investments held by consolidated sponsored investment products to be assets of the Company other than its direct investment in these products.

As of June 30, 2014 and December 31, 2013, the Company consolidated eleven and eight sponsored investment products, respectively. During the six months ended June 30, 2014, the Company consolidated four 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 June 30, 2014 and December 31, 2013:

	<b>June 30, 2014</b>	<b>As of December 31, 2013</b>
<i>(\$ in thousands)</i>		
Total cash	\$ 12,319	\$ 531
Total investments	207,279	139,054
All other assets	3,285	9,595
Total liabilities	(16,011)	(8,435)
Redeemable noncontrolling interests	(10,397)	(42,186)
<b>The Company's net interests in consolidated sponsored investment products</b>	<b>\$ 196,475</b>	<b>\$ 98,559</b>

**Consolidation**

The following tables reflect the impact of the consolidated sponsored investment products in the Condensed Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013 and the Condensed Consolidated Statements of Income for the three and six months ended June 30, 2014 and 2013, respectively:

**As of June 30, 2014**

	<b>Balance Before Consolidation of Investment Products</b>	<b>Consolidated Sponsored Investment Products</b>	<b>Eliminations and Adjustments (a)</b>	<b>Balances as Reported in Consolidated Balance Sheet</b>
<i>(\$ in thousands)</i>				
Total cash	\$ 170,367	\$ 12,319	\$	\$ 182,686
Total investments	261,414	207,279	(196,315)	272,378
All other assets	182,490	3,285	(160)	185,615
<b>Total assets</b>	<b>\$ 614,271</b>	<b>\$ 222,883</b>	<b>\$ (196,475)</b>	<b>\$ 640,679</b>
<b>Total liabilities</b>	<b>\$ 99,844</b>	<b>\$ 16,171</b>	<b>\$ (160)</b>	<b>\$ 115,855</b>
Redeemable noncontrolling interests			10,397	10,397
Equity attributable to stockholders of the Company	514,529	206,712	(206,712)	514,529
Non-redeemable noncontrolling interests	(102)			(102)
<b>Total liabilities and equity</b>	<b>\$ 614,271</b>	<b>\$ 222,883</b>	<b>\$ (196,475)</b>	<b>\$ 640,679</b>

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As of December 31, 2013

	<b>Balance Before Consolidation of Investment Products</b>	<b>Consolidated Sponsored Investment Products</b>	<b>Eliminations and Adjustments (a)</b>	<b>Balances as Reported in Consolidated Balance Sheet</b>
<i>(\$ in thousands)</i>				
Total cash	\$ 271,014	\$ 531	\$	\$ 271,545
Total investments	135,692	139,054	(98,434)	176,312
All other assets	187,627	9,595	(125)	197,097
<b>Total assets</b>	<b>\$ 594,333</b>	<b>\$ 149,180</b>	<b>\$ (98,559)</b>	<b>\$ 644,954</b>
<b>Total liabilities</b>	<b>\$ 101,465</b>	<b>\$ 8,560</b>	<b>\$ (125)</b>	<b>\$ 109,900</b>
Redeemable noncontrolling interests			42,186	42,186
Equity attributable to stockholders of the Company	492,930	140,620	(140,620)	492,930
Non-redeemable noncontrolling interests	(62)			(62)
<b>Total liabilities and equity</b>	<b>\$ 594,333</b>	<b>\$ 149,180</b>	<b>\$ (98,559)</b>	<b>\$ 644,954</b>

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

The following table reflects the impact of the consolidated sponsored investment products in the Condensed Consolidated Statement of Operations for the three and six months ended June 30, 2014 and 2013:

**For the Three Months Ended June 30, 2014**

	<b>Balance Before Consolidation of Investment Products</b>	<b>Consolidated Sponsored Investment Products</b>	<b>Eliminations and Adjustments (a)</b>	<b>Balances as Reported in in Condensed Consolidated Statement of Operations</b>
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(\$ in thousands)

<b>Total operating revenues</b>	\$	112,871	\$		\$	(122)	\$	112,749
<b>Total operating expenses</b>		89,450		919		(122)		90,247
<b>Operating income (loss)</b>		23,421		(919)				22,502
<b>Total other non-operating income</b>		8,198		8,082		(6,884)		9,396
<b>Income before income tax expense</b>		31,619		7,163		(6,884)		31,898
Income tax expense		12,106						12,106
<b>Net income</b>		19,513		7,163		(6,884)		19,792
Noncontrolling interests		30				(279)		(249)
<b>Net income attributable to the Company</b>	\$	19,543	\$	7,163	\$	(7,163)	\$	19,543

For the Three Months Ended June 30, 2013

		<b>Balance Before Consolidation of Investment Products</b>	<b>Consolidated Investment Products</b>	<b>Eliminations and Adjustments (a)</b>	<b>Balances as Reported in Condensed Consolidated Statement of Operations</b>
(\$ in thousands)					
<b>Total operating revenues</b>	\$	96,135	\$	5	\$ 96,140
<b>Total operating expenses</b>		69,125		128	5 69,258
<b>Operating income (loss)</b>		27,010		(128)	26,882
<b>Total other non-operating (expense) income</b>		(2,321)		(2,543)	2,083 (2,781)
<b>Income (loss) before income tax expense</b>		24,689		(2,671)	2,083 24,101
Income tax expense		9,318			9,318
<b>Net income (loss)</b>		15,371		(2,671)	2,083 14,783
Noncontrolling interests		14			588 602
<b>Net income (loss) attributable to the Company</b>	\$	15,385	\$	(2,671)	\$ 2,671 \$ 15,385



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For the Six Months Ended June 30, 2014

	Balance Before Consolidation of Investment Products	Consolidated Sponsored Investment Products	Eliminations and Adjustments (a)	Balances as Reported in Condensed Consolidated Statement of Operations
<i>(\$ in thousands)</i>				
<b>Total operating revenues</b>	\$ 220,726	\$	\$ (106)	\$ 220,620
<b>Total operating expenses</b>	164,364	1,234	(106)	165,492
<b>Operating income (loss)</b>	56,362	(1,234)		55,128
<b>Total other non-operating income</b>	11,195	8,992	(7,640)	12,547
<b>Income before income tax expense</b>	67,557	7,758	(7,640)	67,675
Income tax expense	26,116			26,116
<b>Net income</b>	41,441	7,758	(7,640)	41,559
Noncontrolling interests	40		(118)	(78)
<b>Net income attributable to the Company</b>	\$ 41,481	\$ 7,758	\$ (7,758)	\$ 41,481

For the Six Months Ended June 30, 2013

	Balance Before Consolidation of Investment Products	Consolidated Investment Products	Eliminations and Adjustments (a)	Balances as Reported in Condensed Consolidated Statement of Operations
<i>(\$ in thousands)</i>				
<b>Total operating revenues</b>	\$ 182,256	\$	\$ 52	\$ 182,308
<b>Total operating expenses</b>	134,010	264	52	134,326

<b>Operating income (loss)</b>	48,246	(264)		47,982
<b>Total other non-operating expense</b>	(1,165)	(1,691)	1,610	(1,246)
<b>Income (loss) before income tax expense</b>	47,081	(1,955)	1,610	46,736
Income tax expense	17,768			17,768
<b>Net income (loss)</b>	29,313	(1,955)	1,610	28,968
Noncontrolling interests	32		345	377
<b>Net income (loss) attributable to the Company</b>	\$ 29,345	\$ (1,955)	\$ 1,955	\$ 29,345

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

**Table of Contents*****Fair Value Measurements of Consolidated Sponsored Investment Products***

The assets and liabilities of the consolidated sponsored investment products measured at fair value on a recurring basis as of June 30, 2014 and December 31, 2013 by fair value hierarchy level were as follows:

**June 30, 2014**

	Level 1	Level 2	Level 3	Total
<i>(\$ in thousands)</i>				
<i>Assets</i>				
Debt securities	\$	\$ 112,333	\$ 450	\$ 112,783
Equity securities	93,332	1,164		94,496
Derivatives	15	31		46
<b>Total Assets Measured at Fair Value</b>	<b>\$ 93,347</b>	<b>\$ 113,528</b>	<b>\$ 450</b>	<b>\$ 207,325</b>
<i>Liabilities</i>				
Short sales	\$ 9,024	\$ 2,020	\$	\$ 11,044

**December 31, 2013**

	Level 1	Level 2	Level 3	Total
<i>(\$ in thousands)</i>				
<i>Assets</i>				
Debt securities	\$	\$ 47,114	\$	\$ 47,114
Equity securities	91,940			91,940
<b>Total Assets Measured at Fair Value</b>	<b>\$ 91,940</b>	<b>\$ 47,114</b>	<b>\$</b>	<b>\$ 139,054</b>

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 and equity 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 certain equity securities for which closing prices are not readily available or are deemed to not reflect readily available market prices and are valued using an independent pricing service as well as most debt securities, which are valued based on quotations received from independent pricing services or from dealers who make markets in such securities. Pricing services do not provide pricing for all securities and therefore indicative bids from dealers are utilized, which are based on pricing models used by market makers in the security and are also included within Level 2. Level 3 investments include debt securities that are not widely traded and are illiquid that are priced by dealers based on pricing models used by market makers in the security.

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.

	<b>Debt securities (a)</b>
Balance at December 31, 2013	\$
Purchases	450
<b>Balance at June 30, 2014</b>	<b>\$ 450</b>

(a) None of the securities in the above table are internally fair valued at June 30, 2014.

The Company recognized no gain or loss in the three and six months ended June 30, 2014 related to changes in market value of these investments.

There were no transfers between Level 1, Level 2, and Level 3 during the six months ended June 30, 2014 and 2013, respectively.

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**Table of Contents*****Derivatives***

Beginning in the second quarter of 2014, the Company consolidated investment products which include derivative instruments as part of their investment strategies. These derivatives may include futures contracts, options contracts, and forward contracts. The fair value of such derivatives at June 30, 2014 was immaterial. The change in fair value of such derivatives, which is recorded in realized and unrealized gain (loss) on investments of consolidated sponsored investment products, net, was immaterial for the three and six months ended June 30, 2014. 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 Sheet of the Company as Cash pledged or on deposit of consolidated sponsored investment products.

***Short Sales***

Some of the Company's consolidated sponsored investment products may engage in short sales, which are transactions in which a fund sells a security that it does not own (or that it owns but does not intend to deliver) in anticipation that the price of the security will decline. Short sales are recorded in the Condensed Consolidated Balance Sheet within Other liabilities of consolidated sponsored investment products.

**12. New Accounting Standards**

In May 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 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. ASU 2014-09 is effective for the first interim period within annual reporting periods beginning after December 15, 2016. Early adoption is prohibited. The Company is currently evaluating the impact ASU 2014-09 is expected to have on its consolidated financial statements.

In July 2013, FASB issued ASU No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. ASU 2013-11 provides guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. ASU 2013-11 is effective for the Company on January 1, 2014. The Company has adopted this standard as of January 1, 2014. The adoption of this standard did not have a material impact on the Company's financial results.

In June, 2013, the FASB issued ASU No. 2013-08, *Investment Companies: Amendments to the Scope, Measurement and Disclosure Requirements*. The new standard clarifies the characteristics of an investment company and provides comprehensive guidance for assessing whether an entity is an investment company. The amendments apply to an entity's interim and annual reporting periods in fiscal years that begin after December 15, 2013. The Company has adopted this standard as of January 1, 2014. The adoption of this standard did not have a material impact on the Company's financial results.

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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. 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, intend, believe, may, will, should, could, continue, project, opportunity, predict, would, potential, likely, 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, and 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 are as of the date of this Quarterly Report 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, 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.

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, 2013, and in this Quarterly Report on Form 10-Q, as well as the following risks and uncertainties: (a) any reduction in our assets under management; (b) damage to our reputation; (c) our money market funds do not maintain stable net asset values; (d) our inability to attract and retain key personnel; (e) the competition we face in our business; (f) adverse regulatory and legal developments; (g) limitations on our deferred tax assets; (h) changes in key distribution or unaffiliated subadvisory relationships; (i) interruptions in service or failure to provide service by third-party service providers; (j) impairment of our goodwill or intangible assets; (k) lack of availability of required and necessary capital on satisfactory terms; (l) liabilities and losses not covered by our insurance policies; and (m) certain other risks and uncertainties described in our 2013 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 2013 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.

***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.

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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 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, and public and private pension plans.

## ***Financial Highlights***

Total revenues were \$112.7 million in the second quarter of 2014, an increase of \$16.6 million, or 17.3% from \$96.1 million in the second quarter of 2013. Total revenues increased in the second quarter of 2014 compared to the same period in the prior year as a result of higher average assets under management and an increase in average fees earned.

Long-term open-end mutual fund sales in the second quarter of 2014 remained relatively balanced among asset strategies, with 28.8% of sales in domestic equity funds, 32.4% in fixed income strategies, 25.9% of sales in international equity funds, and 12.9% in alternative strategies.

In the second quarter of 2014, we launched the Duff & Phelps Select Energy MLP Fund Inc. (NYSE: DSE), a new closed-end fund managed by Duff & Phelps Investment Management Co., an affiliated manager. The fund added \$463.3 million in assets under management.

Net income attributable to common stockholders in the second quarter of 2014 increased 27.0% to \$19.5 million, from \$15.4 million, in second quarter of 2013. Earnings per diluted common share increased 9.9% to \$2.10 in the second quarter of 2014 from \$1.91 in the second quarter of 2013.

## ***Assets Under Management***

At June 30, 2014, we managed \$61.4 billion in total assets, representing an increase of \$8.7 billion, or 16.6%, from the \$52.7 billion managed at June 30, 2013 and an increase of \$3.7 billion, or 6.3%, from December 31, 2013. Long-term assets under management, which exclude cash management products, were \$59.9 billion at June 30, 2014,

an increase of \$9.0 billion, or 17.8%, from \$50.9 billion in June 30, 2013 and an increase of \$3.8 billion, or 6.8%, from December 31, 2013. Average assets under management, which generally correspond to our fee-earning asset levels, were \$58.1 billion for the six months ended June 30, 2014, an increase of \$7.4 billion, or 14.6%, from \$50.7 billion for the six months ended June 30, 2013.

### ***Operating Results***

In the second quarter of 2014, total revenues increased 17.3% to \$112.7 million from \$96.1 million in the second quarter of 2013. This increase was primarily the result of an increase in average assets under management. Operating income decreased by 16.3% from \$26.9 million in the second quarter of 2013 to \$22.5 million in the second quarter of 2014, primarily due to \$10.1 million of costs related to the launch of the new closed-end fund, DSE, which were partially offset by the increased revenues due to higher levels of average assets under management.

**Table of Contents****Assets Under Management by Product**

The following table summarizes our assets under management by product:

	<b>As of June 30,</b>		<b>Change</b>	
	<b>2014</b>	<b>2013</b>	<b>2014 vs. 2013</b>	<b>%</b>
<i>(\$ in millions)</i>				
<b>Retail Assets</b>				
<i>Mutual fund assets</i>				
Long-term open-end mutual funds	\$ 39,819.1	\$ 32,351.2	\$ 7,467.9	23.1%
Closed-end funds	7,530.6	6,422.3	1,108.3	17.3%
Money market open-end funds	1,311.7	1,707.7	(396.0)	(23.2)%
Total mutual fund assets	48,661.4	40,481.2	8,180.2	20.2%
Variable insurance funds	1,305.5	1,250.8	54.7	4.4%
Separately managed accounts (1)	6,862.4	6,521.7	340.7	5.2%
<b>Total retail assets</b>	<b>56,829.3</b>	<b>48,253.7</b>	<b>8,575.6</b>	<b>17.8%</b>
Total institutional assets (1)	4,565.0	4,399.3	165.7	3.8%
<b>Total Assets Under Management</b>	<b>\$ 61,394.3</b>	<b>\$ 52,653.0</b>	<b>\$ 8,741.3</b>	<b>16.6%</b>
<b>Average Assets Under Management for the Six Months Ended</b>	<b>\$ 58,094.4</b>	<b>\$ 50,681.1</b>	<b>\$ 7,413.3</b>	<b>14.6%</b>

(1) Includes assets under management related to options strategies

**Table of Contents****Asset Flows by Product**

The following table summarizes our asset flows by product:

(\$ in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<b>Mutual Funds Long-Term Open-End</b>				
Beginning balance	\$ 37,347.0	\$ 30,552.5	\$ 36,367.7	\$ 25,827.1
Inflows	3,148.5	5,069.9	6,789.8	10,780.5
Outflows	(2,398.0)	(2,462.0)	(5,786.9)	(4,617.0)
Net flows	750.5	2,607.9	1,002.9	6,163.5
Market appreciation (depreciation)	1,651.5	(886.0)	2,302.6	212.4
Other (1)	70.1	76.8	145.9	148.2
<b>Ending balance</b>	<b>\$ 39,819.1</b>	<b>\$ 32,351.2</b>	<b>\$ 39,819.1</b>	<b>\$ 32,351.2</b>
<b>Mutual Funds Closed-End</b>				
Beginning balance	\$ 6,690.7	\$ 6,621.0	\$ 6,499.6	\$ 6,231.6
Inflows	463.3		463.3	
Outflows				
Net flows	463.3		463.3	
Market appreciation (depreciation)	475.6	(61.6)	774.5	388.6
Other (1)	(99.0)	(137.1)	(206.8)	(197.9)
<b>Ending balance</b>	<b>\$ 7,530.6</b>	<b>\$ 6,422.3</b>	<b>\$ 7,530.6</b>	<b>\$ 6,422.3</b>
<b>Mutual Funds Money Market Open-end</b>				
Beginning balance	\$ 1,378.0	\$ 1,742.2	\$ 1,556.6	\$ 1,994.1
Other (1)	(66.3)	(34.5)	(244.9)	(286.4)
<b>Ending balance</b>	<b>\$ 1,311.7</b>	<b>\$ 1,707.7</b>	<b>\$ 1,311.7</b>	<b>\$ 1,707.7</b>
<b>Variable Insurance Funds</b>				
Beginning balance	\$ 1,286.6	\$ 1,317.8	\$ 1,311.8	\$ 1,295.7
Inflows	20.9	12.3	32.5	22.1
Outflows	(53.3)	(65.7)	(108.8)	(126.7)
Net flows	(32.4)	(53.4)	(76.3)	(104.6)
Market appreciation (depreciation)	51.3	(14.1)	70.0	59.2
Other (1)		0.5		0.5
<b>Ending balance</b>	<b>\$ 1,305.5</b>	<b>\$ 1,250.8</b>	<b>\$ 1,305.5</b>	<b>\$ 1,250.8</b>
<b>Separately Managed Accounts (2)</b>				

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Beginning balance	\$ 6,778.4	\$ 6,435.5	\$ 7,433.1	\$ 5,829.0
Inflows	278.8	324.6	750.7	691.6
Outflows	(461.0)	(295.3)	(1,489.0)	(529.3)
Net flows	(182.2)	29.3	(738.3)	162.3
Market appreciation	238.5	87.5	138.4	561.4
Other (1)	27.7	(30.6)	29.2	(31.0)
<b>Ending balance</b>	<b>\$ 6,862.4</b>	<b>\$ 6,521.7</b>	<b>\$ 6,862.4</b>	<b>\$ 6,521.7</b>
<b><u>Institutional Accounts (2)</u></b>				
Beginning balance	\$ 4,530.5	\$ 4,538.7	\$ 4,570.8	\$ 4,359.5
Inflows	106.8	189.0	231.2	343.6
Outflows	(137.9)	(260.6)	(374.4)	(326.6)
Net flows	(31.1)	(71.6)	(143.2)	17.0
Market appreciation (depreciation)	131.1	(13.7)	218.0	96.0
Other (1)	(65.5)	(54.1)	(80.6)	(73.2)
<b>Ending balance</b>	<b>\$ 4,565.0</b>	<b>\$ 4,399.3</b>	<b>\$ 4,565.0</b>	<b>\$ 4,399.3</b>
<b><u>Total</u></b>				
Beginning balance	\$ 58,011.2	\$ 51,207.7	\$ 57,739.6	\$ 45,537.0
Inflows	4,018.3	5,595.8	8,267.5	11,837.8
Outflows	(3,050.2)	(3,083.6)	(7,759.1)	(5,599.6)
Net flows	968.1	2,512.2	508.4	6,238.2
Market appreciation (depreciation)	2,548.0	(887.9)	3,503.5	1,317.6
Other (1)	(133.0)	(179.0)	(357.2)	(439.8)
<b>Ending balance</b>	<b>\$ 61,394.3</b>	<b>\$ 52,653.0</b>	<b>\$ 61,394.3</b>	<b>\$ 52,653.0</b>

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(1) Comprises open-end and closed-end mutual fund distributions, net flows of cash management strategies, net flows and market appreciation (depreciation) on structured products, and net flows from non-sales related activities such as asset acquisitions/(dispositions) and marketable securities investments/(withdrawals) and the impact on assets from the use of leverage.

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

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

	As of June 30,		Change		% of Total	
	2014	2013	2014 vs. 2013	%	2014	2013
<i>(\$ in millions)</i>						
<b>Asset Class</b>						
Equity	\$ 35,842.5	\$ 29,611.7	\$ 6,230.8	21.0%	58.3%	56.3%
Fixed income	16,750.2	16,170.9	579.3	3.6%	27.3%	30.7%
Alternatives (1)	6,744.8	3,705.9	3,038.9	82.0%	11.0%	7.0%
Other (2)	2,056.8	3,164.5	(1,107.7)	(35.0%)	3.4%	6.0%
<b>Total</b>	<b>\$ 61,394.3</b>	<b>\$ 52,653.0</b>	<b>\$ 8,741.3</b>	<b>16.6%</b>	<b>100.0%</b>	<b>100.0%</b>

(1) Consists of non-traditional investment categories such as long-short, real estate, natural resources and other.

(2) Consists of cash management and options strategies. Options strategies were \$0.6 million and \$1.4 million at June 30, 2014 and 2013, respectively.

**Average Assets Under Management and Average Basis Points**

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

	Three Months Ended June 30,			
	Average Fees Earned		Average Assets Under Management	
	<i>(expressed in basis points)</i>		<i>(\$ in millions)</i>	
	2014	2013	2014	2013
<b>Products</b>				
Mutual Funds Long-Term Open-End (1)(2)	52	51	\$ 38,367.2	\$ 32,447.6
Mutual Funds Closed-End	64	61	6,805.1	6,614.4
Mutual Funds Money Market Open-End (1)		2	1,317.1	1,700.6
Variable Insurance Funds (1)	51	57	1,287.6	1,303.1
Separately Managed Accounts (3)	52	49	6,700.0	6,505.7
Institutional Accounts (3)	36	33	4,538.4	4,503.3
<b>All Products</b>	<b>51</b>	<b>49</b>	<b>\$ 59,015.4</b>	<b>\$ 53,074.7</b>

**Six Months Ended June 30,**  
**Average Fees Earned** **Average Assets Under Management**  
*(expressed in basis*

	<i>points</i>		<i>(\$ in millions)</i>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Products</b>				
Mutual Funds Long-Term Open-End (1)(2)	52	51	\$ 37,360.8	\$ 30,418.7
Mutual Funds Closed-End	64	60	6,664.2	6,508.5
Mutual Funds Money Market Open-End (1)		3	1,377.0	1,769.5
Variable Insurance Funds (1)	52	56	1,284.9	1,309.5
Separately Managed Accounts (3)	52	49	6,841.4	6,200.7
Institutional Accounts (3)	36	33	4,566.1	4,474.2
<b>All Products</b>	<b>51</b>	<b>49</b>	<b>\$ 58,094.4</b>	<b>\$ 50,681.1</b>

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- (1) Average fees earned are net of non-affiliated subadvisory fees.  
(2) Excludes the impact of consolidated sponsored investment products.  
(3) Includes assets under management related to options strategies.

Long-term and money market open-end mutual fund and variable insurance fund fees are calculated based on average daily net assets. Closed-end fund fees are calculated based on either average weekly or daily net assets. Average fees earned will vary based on several factors, including the asset mix and reimbursements to funds. 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. Structured finance product fees, which are included in institutional accounts, are calculated based on a combination of the underlying cash flows and the principal value of the product.

The average fee rate earned for the three and six months ended June 30, 2014 increased as compared to the same periods in the prior year as equity and alternative products, which generally have higher fees, represented a higher percentage of our assets under management due to strong sales, positive flows and market appreciation. The average fee rate earned on closed-end funds increased for the three and six months ended June 30, 2014 as compared to the same periods in 2013 due to decreased fee waivers. The average fee rate earned on separately managed accounts increased in the three and six month periods ended June 30, 2014 as compared to same periods in 2013 due to the redemption of low fee earning accounts.

**Results of Operations****Summary Financial Data**

	Three Months Ended June 30,				Six Months Ended June 30,			
	2014	2013	2014 vs. 2013	%	2014	2013	2014 vs. 2013	%
<i>(\$ in thousands)</i>								
<b>Results of Operations</b>								
Investment								
management fees	\$ 74,537	\$ 64,475	\$ 10,062	15.6%	\$ 146,329	\$ 122,252	\$ 24,077	19.7%
Other revenue	38,212	31,665	6,547	20.7%	74,291	60,056	14,235	23.7%
<b>Total revenues</b>	112,749	96,140	16,609	17.3%	220,620	182,308	38,312	21.0%
Operating expenses	89,300	68,142	21,158	31.0%	163,588	132,100	31,488	23.8%
Amortization expense	947	1,116	(169)	(15.1)%	1,904	2,226	(322)	(14.5)%
<b>Total operating expenses</b>	90,247	69,258	20,989	30.3%	165,492	134,326	31,166	23.2%
<b>Operating income</b>	<b>22,502</b>	<b>26,882</b>	<b>(4,380)</b>	<b>(16.3)%</b>	<b>55,128</b>	<b>47,982</b>	<b>7,146</b>	<b>14.9%</b>
Other income (expense), net	7,538	(3,390)	10,928	(322.4)%	9,571	(2,211)	11,782	(532.9)%
Interest income, net	1,858	609	1,249	205.1%	2,976	965	2,011	208.4%

<b>Income before income taxes</b>	<b>31,898</b>	<b>24,101</b>	<b>7,797</b>	<b>32.4%</b>	<b>67,675</b>	<b>46,736</b>	<b>20,939</b>	<b>44.8%</b>
Income tax expense	12,106	9,318	2,788	29.9%	26,116	17,768	8,348	47.0%
<b>Net income</b>	<b>19,792</b>	<b>14,783</b>	<b>5,009</b>	<b>33.9%</b>	<b>41,559</b>	<b>28,968</b>	<b>12,591</b>	<b>43.5%</b>
Noncontrolling interests	(249)	602	(851)	(141.4)%	(78)	377	(455)	(120.7)%
<b>Net income attributable to common stockholders</b>	<b>\$ 19,543</b>	<b>\$ 15,385</b>	<b>\$ 4,158</b>	<b>27.0%</b>	<b>\$ 41,481</b>	<b>\$ 29,345</b>	<b>\$ 12,136</b>	<b>41.4%</b>

**Table of Contents****Revenues**

Revenues by source are as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2014	2013	2014 vs. 2013	%	2014	2013	2014 vs. 2013	%
<i>(\$ in thousands)</i>								
<b>Investment management fees</b>								
Mutual funds	\$ 60,118	\$ 51,020	\$ 9,098	17.8%	\$ 117,138	\$ 96,248	\$ 20,890	21.7%
Separately managed accounts	8,746	7,910	836	10.6%	17,741	15,154	2,587	17.1%
Institutional accounts	4,036	3,706	330	8.9%	8,138	7,212	926	12.8%
Variable products	1,637	1,839	(202)	(11.0)%	3,312	3,638	(326)	(9.0)%
<b>Total investment management fees</b>	<b>74,537</b>	<b>64,475</b>	<b>10,062</b>	<b>15.6%</b>	<b>146,329</b>	<b>122,252</b>	<b>24,077</b>	<b>19.7%</b>
<b>Distribution and service fees</b>	<b>23,940</b>	<b>19,324</b>	<b>4,616</b>	<b>23.9%</b>	<b>46,378</b>	<b>36,685</b>	<b>9,693</b>	<b>26.4%</b>
<b>Administration and transfer agent fees</b>	<b>13,942</b>	<b>12,061</b>	<b>1,881</b>	<b>15.6%</b>	<b>27,015</b>	<b>22,756</b>	<b>4,259</b>	<b>18.7%</b>
<b>Other income and fees</b>	<b>330</b>	<b>280</b>	<b>50</b>	<b>17.9%</b>	<b>898</b>	<b>615</b>	<b>283</b>	<b>46.0%</b>
<b>Total revenues</b>	<b>\$ 112,749</b>	<b>\$ 96,140</b>	<b>\$ 16,609</b>	<b>17.3%</b>	<b>\$ 220,620</b>	<b>\$ 182,308</b>	<b>\$ 38,312</b>	<b>21.0%</b>

**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 increased by \$10.1 million, or 15.6%, for the three months ended June 30, 2014 compared to the same period in the prior year due to an 11.2% increase in average assets under management and an increase of 4.1% to the prior corresponding average fee rate earned. The increase in average assets under management for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013 was due primarily to the cumulative four quarter impact of \$2.4 billion in net flows and \$7.0 billion of market appreciation. Revenues increased at a higher rate than assets under management due to the increase in the average fee rate earned. Equity and alternative assets, which generally earn a higher average fee rate, represented 69.4% of total assets under management at June 30, 2014 compared to 63.3% at June 30, 2013. Other assets, which represent assets under management related to cash management and options strategies were 3.4% of total assets under management at June 30, 2014 compared to 6.0% at June 30, 2013.

Investment management fees increased by \$24.1 million, or 19.7%, for the six months ended June 30, 2014 compared to the same period in the prior year due to a 14.6% increase in average assets under management and an increase of approximately 4.1% to the prior corresponding average fee rate earned. The increase in average assets under management for the six months ended June 30, 2014 was due primarily to the cumulative four quarter impact of \$2.4

billion in net flows and \$7.0 billion of market appreciation on total assets under management. Revenues increased at a higher rate than assets under management due to the increase in the average fee rate earned.

***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, increased by \$4.6 million or 23.9% and \$9.7 million or 26.4%, respectively, for the three and six months ended June 30, 2014 compared to the same periods in the prior year due to higher average long-term open-end assets under management. The increase in fees also resulted in a corresponding increase in distribution and administrative expenses, primarily driven by increased payments to third-party distribution partners for providing services to investors in our sponsored funds, including marketing support services.

***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 increased \$1.9 million or 15.6% and \$4.3 million or 18.7%, respectively, for the three and six months ended June 30, 2014 compared to the same periods in the prior year due to higher average long-term open-end assets under management.

**Table of Contents****Other Income and Fees**

Other income and fees primarily represent contingent sales charges earned from investor redemptions levied on certain shares sold without a front-end sales charge and fees earned for the distribution of unaffiliated products. Other income and fees increased \$0.1 million or 17.9% and \$0.3 million or 46.0%, respectively, for the three and six months ended June 30, 2014 compared to the same periods in the prior year primarily due to an increase in contingent sales charges earned.

**Operating Expenses**

Operating expenses by category were as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2014	2013	2014 vs. 2013	%	2014	2013	2014 vs. 2013	%
<i>(\$ in thousands)</i>								
<b>Operating expenses</b>								
Employment expenses	\$ 35,481	\$ 32,878	\$ 2,603	7.9%	\$ 70,510	\$ 65,289	\$ 5,221	8.0%
Distribution and administrative expenses	39,222	24,252	14,970	61.7%	66,959	45,880	21,079	45.9%
Other operating expenses	13,927	10,415	3,512	33.7%	24,792	19,556	5,236	26.8%
Restructuring and severance				%		203	(203)	(100.0)%
Depreciation expense	670	597	73	12.2%	1,327	1,172	155	13.2%
Amortization expense	947	1,116	(169)	(15.1)%	1,904	2,226	(322)	(14.5)%
<b>Total operating expenses</b>	<b>\$ 90,247</b>	<b>\$ 69,258</b>	<b>\$ 20,989</b>	<b>30.3%</b>	<b>\$ 165,492</b>	<b>\$ 134,326</b>	<b>\$ 31,166</b>	<b>23.2%</b>

**Employment Expenses**

Employment expenses primarily consist of fixed and variable compensation and related employee benefit costs. Employment expenses for the three months ended June 30, 2014 were \$35.5 million, which represents an increase of \$2.6 million, or 7.9%, compared to the same period in the prior year. The increase is primarily due to personnel additions related to the growth of the business, increases in profit-based variable incentive compensation, sales costs related to the launch of the new DSE closed end fund, payroll taxes and other benefits resulting from higher profits.

Employment expenses for the six months ended June 30, 2014 were \$70.5 million, which represents an increase of \$5.2 million, or 8.0%, compared to the same period in the prior year. The increase is primarily due to personnel additions related to the growth of the business, increases in profit-based variable incentive compensation, sales costs related to the launch of the new DSE closed end fund, payroll taxes and other benefits resulting from higher profits.

**Distribution and Administrative Expenses**

Distribution and administrative expenses primarily consist of payments to third-party distribution partners for providing services to investors in our sponsored funds. These payments are generally based on percentages of either assets under management or sales. 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 administrative expenses increased by \$15.0 million, or 61.7%, in the three months ended June 30, 2014, and \$21.1 million or 45.9% during the six months ended June 30, 2014, compared to the same periods in the prior year primarily due to closed end fund structuring costs of \$9.6 million incurred in connection with the launch of the new DSE closed end fund during the second quarter of 2014 as well as higher overall assets under management.

***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. Other operating expenses for the three months ended June 30, 2014 increased \$3.5 million, or 33.7%, to \$13.9 million as compared to \$10.4 million for the same period in the prior

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year primarily due to increases in investment research costs, expenses related to organizational, start-up and distribution costs associated with the launch of new funds, higher professional fees and costs related to the transition of middle-and-back office systems to a third party service provider.

Other operating expenses for the six months ended June 30, 2014 increased \$5.2 million, or 26.8%, to \$24.8 million as compared to \$19.6 million for the same period in the prior year primarily due to increases in investment research costs, expenses related to organizational, start-up and distribution costs associated with the launch of new funds, higher professional fees and costs related to the transition of middle-and-back office systems to a third party service provider.

### ***Depreciation Expense***

Depreciation expense primarily consists of the straight-line depreciation of furniture, equipment, and leasehold improvements over their estimated useful lives. Depreciation expense was \$0.7 million and \$1.3 million during the three and six month periods ended June 30, 2014, consistent with depreciation expense during the same periods in the prior year.

### ***Amortization Expense***

Amortization expense primarily consists of the straight-line amortization of acquired investment advisory contracts recorded as definite-lived intangible assets over their estimated useful lives. Amortization expense was \$0.9 million and \$1.9 million during the three and six month periods ended June 30, 2014, which represented a decrease of \$0.2 and \$0.3 million, respectively during the same periods in the prior year.

### ***Other Income, net***

Other income, net primarily consists of realized and unrealized gains and losses recorded on trading securities and investments of consolidated sponsored investment products. Other income, net increased \$10.9 million and \$11.8 million in the three and six month periods ended June 30, 2014 compared to the same periods in the prior year due to an increase in realized and unrealized gains related to our investments and investments of our consolidated sponsored investment products, which increased by \$27.8 million and \$68.1 million respectively, from December 31, 2013.

### ***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. Interest income, net increased \$1.2 million and \$2.0 million for the three and six month periods ended June 30, 2014 compared to the same periods in the prior year. The increase in interest income, net is primarily due to higher interest and dividend income earned on our investments and the investments of our consolidated sponsored investment products, which increased by \$27.8 million and \$68.1 million respectively, from December 31, 2013.

### ***Income Tax Expense***

The provision for income taxes reflects U.S. federal, state and local taxes at an estimated effective tax rate of 38.6% and 38.0%, for the six months ended June 30, 2014 and 2013, respectively. The primary difference in the effective tax rate for the six month period in 2014 compared to 2013 was attributable to an increase in state rates due to legislation changes enacted.

**Liquidity and Capital Resources***Certain Financial Data*

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

	<b>June 30, 2014</b>	<b>December 31, 2013</b>	<b>Change 2014 vs. 2013</b>	<b>%</b>
<i>(\$ in thousands)</i>				
<b>Balance Sheet Data</b>				
Cash and cash equivalents	\$ 170,367	\$ 271,014	\$ (100,647)	(37.1)%
Investments	65,099	37,258	27,841	74.7%
Deferred taxes, net	57,064	64,500	(7,436)	(11.5)%
Dividends payable	4,179		4,179	100.0%
Total equity	514,427	492,868	21,559	4.4%
Net assets of consolidated sponsored investment products (1)	196,315	98,433	97,882	99.4%

- (1) Net assets of consolidated sponsored investment products are comprised of \$222.7 and \$149.2 million of total assets, \$16.0 and \$8.6 million of total liabilities and \$10.4 and \$42.2 million of redeemable noncontrolling interest at June 30, 2014 and December 31, 2013, respectively.

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	Six Months Ended June, 30		Change	
	2014	2013	2014 vs. 2013	%
<i>(in thousands)</i>				
<b>Cash Flow Data:</b>				
<i>Provided by (used in):</i>				
Operating Activities	\$ (91,083)	\$ 22,176	\$ (113,259)	(510.7)%
Investing Activities	(2,029)	(5,465)	3,436	(62.9)%
Financing Activities	(7,705)	(9,272)	1,567	(16.9)%

**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, dividends to shareholders and other operating expenses, primarily consisting of investment research and technology costs, professional fees, distribution and occupancy costs. Incentive compensation, which is generally the Company's largest annual operating cash payment, is paid in the first quarter of the year. In the first quarter of 2014 and 2013, we paid approximately \$45.0 million and \$33.0 million, respectively, in incentive compensation earned during the years ended December 31, 2013 and 2012, respectively. Short-term capital requirements may also be affected by employee tax withholding payments related to net share settlement of equity awards. The Company paid \$9.3 million and \$7.2 million in employee tax withholding obligations related to net share settlements in the six months ended June 30, 2014 and 2013, 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 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.

**Uses and Sources 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 mutual funds to introduce new products or to enhance distribution access; (iii) return of capital to shareholders through acquisition of shares of our common stock, payment of dividends or other means; (iv) fund ongoing and potential investments in our infrastructure to achieve greater economies of scale and a more efficient overall cost structure; and (v) invest in inorganic growth opportunities as they arise.

**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 June 30, 2014 and December 31, 2013, 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.

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Cash and cash equivalents consist of cash in banks and money market fund investments. Cash and cash equivalents typically increase in the second, third and fourth quarters of the year as we record, but do not pay, variable incentive compensation. Annual incentive compensation is paid in the first quarter of the year. 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. As of June 30, 2014, we consolidated a total of 11 sponsored investment products. At both June 30, 2014 and December 31, 2013, we had no debt outstanding. On April 23, 2014, we invested \$129.9 million of cash and cash equivalents to seed three new mutual funds.

***Operating Cash Flow***

Net cash used in operating activities of \$91.1 million for the six months ended June 30, 2014 decreased by \$113.3 million from net cash provided by operating activities of \$22.2 million in the same period in the prior year due primarily to purchases of investments, realized and unrealized gains on investments and cash pledged or on deposit by consolidated sponsored investment products, offset by sales of trading securities, increases in our net income resulting from increased revenues on higher average assets under management, increased other liabilities and other assets of consolidated sponsored investment products, a decrease in deferred tax assets as well as increased amortization of deferred commissions.

***Investing Cash Flow***

Net cash used in investing activities consists primarily of capital expenditures related to our business operations. Net cash used in investing activities of \$2.0 million for the six months ended June 30, 2014, declined by \$3.4 million from net cash used in investing activities of \$5.5 million in the same period in the prior year due to the acquisition of an equity method investment in the prior year period with no corresponding acquisition in the current year period as well as a change in cash and cash equivalents as a result of the deconsolidation of certain consolidated sponsored investment products of \$0.4 million during the six months ended June 30, 2014 as compared to the six months ended June 30, 2013.

***Financing Cash Flow***

Cash flows used in financing activities consist primarily of repurchases of our common stock and payments to settle tax withholding obligations for the net share settlement of employee share transactions and contributions to noncontrolling interests related to our consolidated sponsored investment products. For the six months ended June 30, 2014, net cash used in financing activities of \$7.7 million consists of repurchases of our common stock of \$12.5 million and payments to settle tax withholding obligations for employee share transactions of \$9.3 million, offset by \$13.1 million in contributions to noncontrolling interests and \$0.4 million in proceeds from stock option exercises.

***Debt***

Our Credit Facility, as amended and restated, has a five-year term expiring in September 2017 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 June 30, 2014 and December 31, 2013, no amount was outstanding under the Credit Facility. As of June 30, 2014, 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 June 30, 2014.

***Contractual Obligations***

Our contractual obligations are summarized in our 2013 Annual Report on Form 10-K. As of June 30, 2014, there have been no material changes outside of the ordinary course in our contractual obligations since December 31, 2013.

***Critical Accounting Policies and Estimates***

Our financial statements and the accompanying notes are prepared in accordance with Generally Accepted Accounting Principles, which requires 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 2013 Annual Report on Form 10-K. A complete description of our significant accounting policies is included in our 2013 Annual Report on Form 10-K. There were no changes in our critical accounting policies in the six months ended June 30, 2014.

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In May 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 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. ASU 2014-09 is effective for the first interim period within annual reporting periods beginning after December 15, 2016. Early adoption is prohibited. The Company is currently evaluating the impact ASU 2014-09 is expected to have on its consolidated financial statements.

In July 2013, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. ASU 2013-11 provides guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. ASU 2013-11 is effective for the Company on January 1, 2014. We adopted this standard as of January 1, 2014. The adoption of this standard did not have a material impact on our financial results.

In June, 2013, the FASB issued ASU No. 2013-08, *Investment Companies: Amendments to the Scope, Measurement and Disclosure Requirements*. The new standard clarifies the characteristics of an investment company and provides comprehensive guidance for assessing whether an entity is an investment company. The amendments apply to an entity's interim and annual reporting periods in fiscal years that begin after December 15, 2013. We adopted this standard as of January 1, 2014. The adoption of this standard did not have a material impact on our financial results.

**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 June 30, 2014, the fair value of marketable securities, excluding redeemable non-controlling interest was \$252.7 million. Assuming a 10.0% increase or decrease in the fair value of marketable securities at June 30, 2014, our net income attributable to common stockholders would change by \$15.4 million and our total comprehensive income would change by \$15.6 million for the six months ended June 30, 2014.

***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 June 30, 2014, we were exposed to interest rate risk as a result of holding investments in fixed-income sponsored funds of \$79.6. Assuming a 1.0% increase or decrease in interest rates, the fair value of our fixed income investments would change by \$2.9 million for the six months ended June 30, 2014.

At June 30, 2014, 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 1, 2, 3 or 6 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%.

#### **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 under the Securities Exchange Act of 1934, as amended (the Exchange Act ), is recorded, processed, summarized and reported within the specified time periods, 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. Our

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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) or 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 have concluded that our disclosure controls and procedures were effective as of 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**

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 our products and other activities. Legal and regulatory matters of this nature may involve activities as an employer, issuer of securities, investor, investment adviser, broker-dealer or taxpayer. 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, it is not feasible to predict the ultimate outcome of all legal claims or matters or in certain instances provide reasonable ranges of potential losses. In the event of unexpected subsequent developments and given the inherent unpredictability of these legal and regulatory matters, there can be no assurance that our 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.

### **Item 1A. Risk Factors**

There have been no material changes to our risk factors previously reported in our 2013 Annual Report on Form 10-K.

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

In the fourth quarter of 2010, we implemented a share repurchase program authorizing the repurchase of 350,000 shares of our common stock, which was renewed in the second quarter of 2013 permitting the repurchase of an additional 350,000 shares of our common stock prior to May 21, 2016. 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 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 June 30, 2014:

<b>Period</b>	<b>Total number of shares purchased</b>	<b>Average price paid per share (1)</b>	<b>Total number of shares purchased as part of publicly announced plans or programs (2)</b>	<b>Maximum number of shares that may yet be purchased under the plans or programs (2)</b>
April 1 - 30, 2014		\$		350,000
May 1 - 31, 2014	66,913	\$ 186.77	66,913	283,087
June 1 - 30, 2014		\$		283,087

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

(2) The share repurchases above were completed pursuant to an expanded program announced in May 2013.

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.

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For the six months ended June 30, 2014, we paid \$9.3 million in employee tax withholding obligations related to employee share transactions.

**Item 6. Exhibits**

<b>Exhibit Number</b>	<b>Description</b>
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 June 30, 2014 and December 31, 2013, (ii) Condensed Consolidated Statements of Operations (Unaudited) for the three and six months ended June 30, 2014 and 2013, (iii) Condensed Consolidated Statements of Comprehensive Income (Unaudited) for the six months ended June 30, 2014 and 2013, (iv) Condensed Consolidated Statements of Cash Flows (Unaudited) for the six months ended June 30, 2014 and 2013, (v) Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited) for the six months ended June 30, 2014 and 2013 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: July 29, 2014

**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)**