

VIRTUS INVESTMENT PARTNERS, INC.

Form 10-Q

November 04, 2011

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2011

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

For the transition period from            to            .

Commission File Number: 001-10994

**VIRTUS INVESTMENT PARTNERS, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

**100 Pearl Street, Hartford, CT 06103**  
(Address of principal executive offices) (Zip Code)

**(800) 248-7971**  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

The number of shares outstanding of the registrant's common stock was 6,171,584 as of October 28, 2011.

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

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

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

See Notes to Condensed Consolidated Financial Statements.

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

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

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

See Notes to Condensed Consolidated Financial Statements.

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

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



|                   |    |     |    |     |
|-------------------|----|-----|----|-----|
| Income taxes paid | \$ | 444 | \$ | 707 |
|-------------------|----|-----|----|-----|

See Notes to Condensed Consolidated Financial Statements.

**Table of Contents****Virtus Investment Partners, Inc.****Notes to Condensed Consolidated Financial Statements****(Unaudited)****1. Organization and Business**

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

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

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

**2. Basis of Presentation and Accounting Policies**

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

These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission ( SEC ). The Company s significant accounting policies, which have been consistently applied, are summarized in the Company s 2010 Annual Report on Form 10-K.

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

**3. Intangible Assets**

Intangible assets are summarized as follows:

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

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

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

**3. Intangible Assets (continued)**

Activity in intangible assets is as follows:

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

**4. Marketable Securities**

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

**September 30, 2011**

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

**December 31, 2010**

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

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

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

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**Virtus Investment Partners, Inc.**

**Notes to Condensed Consolidated Financial Statements**

**(Unaudited)**

**5. Income Taxes**

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

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

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

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

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

**6. Stockholders' Equity**

***Treasury Stock***

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



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

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

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

**8. BMO Bankcorp Related Party Transactions**

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

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

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

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

**9. Stock-based Compensation**

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



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be time-vested, performance-contingent or have a combination of both time and performance vesting features. Stock options generally vest over three years and have a contractual life of ten years. Stock options are granted with an exercise price equal to the fair market value of the shares at the date of grant.

### ***Board of Director Grants***

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

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

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

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

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

***Stock Options***

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

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

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

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

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

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

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

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

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

**10. Earnings per Share**

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

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

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

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

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|  |           |         |         |         |
|--|-----------|---------|---------|---------|
| <b>Basic:</b>  |           |         |         |         |
| Weighted-average number of shares outstanding                            | 6,219     | 6,103   | 6,222   | 5,931   |
| Earnings (Loss) per share - basic  | \$ (0.56) | \$ 0.39 | \$ 0.35 | \$ 0.36 |
| <b>Diluted:</b>  |           |         |         |         |
| Weighted-average number of shares outstanding                            | 6,219     | 6,103   | 6,222   | 5,931   |
| Plus: Incremental shares from assumed conversion of dilutive instruments |           | 435     | 673     | 535     |
| Adjusted weighted-average number of shares outstanding                   | 6,219     | 6,538   | 6,895   | 6,466   |
| Earnings (Loss) per share - diluted                                      | \$ (0.56) | \$ 0.37 | \$ 0.31 | \$ 0.33 |

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**Virtus Investment Partners, Inc.**

**Notes to Condensed Consolidated Financial Statements**

**(Unaudited)**

**10. Earnings per Share (continued)**

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

**11. Commitments and Contingencies**

***Legal Matters***

The Company is regularly involved in litigation and arbitration as well as examinations and investigations by various regulatory bodies, including the SEC, involving its compliance with, among other things, securities laws, client investment guidelines, laws governing the activities of broker-dealers and other laws and regulations affecting its products and other activities. Legal and regulatory matters of this nature may involve activities as an employer, issuer of securities, investor, investment advisor, broker-dealer or taxpayer. We cannot predict the ultimate outcome of such legal claims or matters or in certain instances provide reasonable ranges of potential losses. As of the date of this report, the Company believes that the outcomes of its legal or regulatory matters are not likely, either individually or in the aggregate, to have a material adverse effect on its consolidated financial condition. However, in the event of unexpected subsequent developments and given the inherent unpredictability of these legal and regulatory matters, there can be no assurance that the Company's assessment of any claim, dispute, regulatory examination or investigation or other legal matter will reflect the ultimate outcome and an adverse outcome in certain matters could, from time to time, have a material adverse effect on the Company's results of operations or cash flows in particular quarterly or annual periods.

***Harris Strategic Partnership***

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

***Inverness Partnerships***

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

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



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**Virtus Investment Partners, Inc.**

**Notes to Condensed Consolidated Financial Statements**

**(Unaudited)**

**12. Recently Issued Accounting Pronouncements**

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

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

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

**13. Subsequent Event**

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



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

***Forward Looking Statements***

This Quarterly Report on Form 10-Q contains statements that are, or may be considered to be, forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995, as amended, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. All statements that are not historical facts, including statements about our beliefs or expectations, are forward-looking statements. These statements may be identified by such forward-looking terminology as expect, estimate, plan, intend, believe, anticipate, will, should, could, continue, project or similar statements or variations of such terms.

Our forward-looking statements are based on a series of expectations, assumptions and projections about our Company, are not guarantees of future results or performance, and involve substantial risks and uncertainty, including assumptions and projections concerning our assets under management, net cash inflows and outflows, operating cash flows, and future credit facilities, for all forward periods. All of our forward-looking statements contained in this Quarterly Report are as of the date of this Quarterly Report only. The Company can give no assurance that such expectations or forward-looking statements will prove to be correct. Actual results may differ materially.

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

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

The Company does not undertake or plan to update or revise any such forward-looking statements to reflect actual results, changes in plans, assumptions, estimates or projections, or other circumstances occurring after the date of this Quarterly Report, even if such results, changes or circumstances make it clear that any forward-looking information will not be realized. If there are any future public statements or disclosures by us which modify or impact any of the forward-looking statements contained in or accompanying this Quarterly Report, such statements or disclosures will be deemed to modify or supersede such statements in this Quarterly Report.

***Overview***

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

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

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

***Financial Highlights***

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

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

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

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

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

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

***Assets Under Management***

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

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

**Assets Under Management by Product**

The following table summarizes our assets under management by product:

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

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

**Assets Under Management by Asset Class**

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

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

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

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

The following table summarizes our assets flows by product:

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

| <i>(\$ in thousands)</i>                                     | <b>Three Months Ended<br/>September 30,</b> |                 | <b>Increase/<br/>(Decrease)</b> | <b>Nine Months Ended<br/>September 30,</b> |                 | <b>Increase/<br/>(Decrease)</b> |
|--|---|-----------------|---------------------------------|--|-----------------|---------------------------------|
|  | <b>2011</b>                                 | <b>2010</b>     | <b>2011 vs. 2010</b>            | <b>2011</b>                                | <b>2010</b>     | <b>2011 vs. 2010</b>            |
| <b>Results of Operations</b>                                 |   |                 |                                 |  |                 |                                 |
| Investment management fees                                   | \$ 37,053                                   | \$ 23,483       | \$ 13,570                       | \$ 97,365                                  | \$ 71,285       | \$ 26,080                       |
| Other revenue  | 18,404                                      | 12,099          | 6,305                           | 51,115                                     | 32,532          | 18,583                          |
| <b>Total revenues</b>  | <b>55,457</b>                               | <b>35,582</b>   | <b>19,875</b>                   | <b>148,480</b>                             | <b>103,817</b>  | <b>44,663</b>                   |
| Operating expenses   | 56,672                                      | 31,610          | 25,062                          | 139,736                                    | 95,099          | 44,637                          |
| Intangible asset amortization                                | 978   | 1,075           | (97)                            | 3,035                                      | 3,897           | (862)                           |
| <b>Total operating expenses</b>                              | <b>57,650</b>                               | <b>32,685</b>   | <b>24,965</b>                   | <b>142,771</b>                             | <b>98,996</b>   | <b>43,775</b>                   |
| <b>Operating income (loss)</b>                               | <b>(2,193)</b>                              | <b>2,897</b>    | <b>(5,090)</b>                  | <b>5,709</b>                               | <b>4,821</b>    | <b>888</b>                      |
| Other income (expense), net                                  | (1,572)                                     | 1,028           | (2,600)                         | (945)                                      | 922             | (1,867)                         |
| Interest income (expense), net                               | (108)                                       | (176)           | 68                              | (400)                                      | (471)           | 71                              |
| <b>Income (loss) before income taxes</b>                     | <b>(3,873)</b>                              | <b>3,749</b>    | <b>(7,622)</b>                  | <b>4,364</b>                               | <b>5,272</b>    | <b>(908)</b>                    |
| Income tax expense (benefit)                                 | (1,095)                                     | 30              | (1,125)                         | (391)                                      | 80              | (471)                           |
| <b>Net income (loss)</b>                                     | <b>(2,778)</b>                              | <b>3,719</b>    | <b>(6,497)</b>                  | <b>4,755</b>                               | <b>5,192</b>    | <b>(437)</b>                    |
| Preferred stockholder dividends                              | (705)                                       | (785)           | 80                              | (2,113)                                    | (2,585)         | 472                             |
| Allocation of earnings to preferred stockholders             |   | (528)           | 528                             | (476)                                      | (469)           | (7)                             |
| <b>Net income (loss) attributable to common stockholders</b> | <b>\$ (3,483)</b>                           | <b>\$ 2,406</b> | <b>\$ (5,889)</b>               | <b>\$ 2,166</b>                            | <b>\$ 2,138</b> | <b>\$ 28</b>                    |

**Revenues**

Revenues by source are as follows:

|  | <b>Three Months Ended<br/>September 30,</b> | <b>Increase/<br/>(Decrease)</b> | <b>Nine Months Ended<br/>September 30,</b> | <b>Increase/<br/>(Decrease)</b> |
|--|---|---------------------------------|--|---------------------------------|
|--|---|---------------------------------|--|---------------------------------|

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*(\$ in thousands)*

|   | 2011             | 2010             | 2011 vs. 2010    | 2011              | 2010              | 2011 vs. 2010    |
|---|------------------|------------------|------------------|-------------------|-------------------|------------------|
| <b>Investment management fees</b>             |                  |                  |                  |                   |                   |                  |
| Mutual funds                                  | \$ 26,650        | \$ 15,875        | \$ 10,775        | \$ 66,951         | \$ 46,525         | \$ 20,426        |
| Separately managed accounts                   | 5,185            | 4,123            | 1,062            | 14,724            | 12,734            | 1,990            |
| Institutional accounts                        | 2,797            | 2,679            | 118              | 8,655             | 8,257             | 398              |
| Structured finance products                   | 865              | 806              | 59               | 2,469             | 3,769             | (1,300)          |
| Variable insurance funds                      | 1,556            |                  | 1,556            | 4,566             |                   | 4,566            |
| <b>Total investment management fees</b>       | <b>37,053</b>    | <b>23,483</b>    | <b>13,570</b>    | <b>97,365</b>     | <b>71,285</b>     | <b>26,080</b>    |
| <b>Distribution and service fees</b>          | <b>11,435</b>    | <b>7,353</b>     | <b>4,082</b>     | <b>32,295</b>     | <b>20,763</b>     | <b>11,532</b>    |
| <b>Administration and transfer agent fees</b> | <b>6,363</b>     | <b>4,328</b>     | <b>2,035</b>     | <b>17,353</b>     | <b>10,516</b>     | <b>6,837</b>     |
| <b>Other income and fees</b>                  | <b>606</b>       | <b>418</b>       | <b>188</b>       | <b>1,467</b>      | <b>1,253</b>      | <b>214</b>       |
| <b>Total revenues</b>                         | <b>\$ 55,457</b> | <b>\$ 35,582</b> | <b>\$ 19,875</b> | <b>\$ 148,480</b> | <b>\$ 103,817</b> | <b>\$ 44,663</b> |

***Investment Management Fees***

Investment management fees increased \$13.6 million or 57.8% and \$26.1 million or 36.6% for the three and nine months ended September 30, 2011, respectively, due to a 31.6% and 26.6% increase in average fee earning assets under management compared to the corresponding prior year periods as well as a \$3.4 million increase in investment management fees related to the full quarter effect of the inclusion of the Newfleet Multi-Sector portfolio management team. The increase in average fee earning assets under management for the three and nine months ended September 30, 2011 was due primarily to overall positive net flows of \$1.6 billion and \$4.4 billion, respectively, primarily from strong sales of long-term open-end mutual funds and the launch of the DPG closed-end fund, offset by market depreciation of \$2.4 billion and \$0.9 billion, respectively. Offsetting the increase in investment management fees

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for the three and nine months ended September 30, 2011 were higher fund expense reimbursements of \$0.4 million and \$1.7 million, respectively, related to our variable insurance funds adopted in the fourth quarter of 2010. In addition, subordinated management fees on structured finance products were lower in the first nine months of 2011 than in the first nine months of 2010 due to recognition of \$1.3 million of revenue in the first nine months of 2010 for fees earned in prior periods that were not recognized as revenue until payment of such fees resumed in the first quarter of 2010.

***Distribution and Service Fees***

Distribution and service fees, which are asset-based fees earned from our open-end mutual funds for distribution services we perform on their behalf, increased \$4.1 million or 55.5% and \$11.5 million or 55.5% for the three and nine months ended September 30, 2011, respectively, compared to the corresponding prior year periods due to higher assets under management in long-term open-end mutual funds and variable insurance funds. The increase in fees also resulted in a corresponding increase in trail commissions, which are a component of distribution and administration expenses. Trail commissions represent asset-based payments to our distribution partners based on a percentage of our assets under management.

***Administration and Transfer Agent Fees***

Administration and transfer agent fees, which are asset-based fees earned from our open-end mutual funds, variable insurance funds and certain of the closed-end funds for fund administration and transfer agent services we perform on their behalf, increased \$2.0 million or 47.0% and \$6.8 million or 65.0%, respectively, for the three and nine months ended September 30, 2011 compared to the corresponding prior year periods due to higher assets under management. In addition, in April 2010, an amendment to our fund administration agreement was executed with our open-end mutual funds that changed and increased our fee rates.

***Operating Expenses***

Operating expenses by category were as follows:

| (\$ in thousands)                        | Three Months Ended    |                  | Increase/<br>(Decrease)<br>2011 vs. 2010 | Nine Months Ended     |                  | Increase/<br>(Decrease)<br>2011 vs. 2010 |
|--|-----------------------|------------------|--|-----------------------|------------------|--|
|  | September 30,<br>2011 | 2010             |  | September 30,<br>2011 | 2010             |  |
| <b>Operating expenses</b>                |                       |                  |  |                       |                  |  |
| Employment expenses                      | \$ 25,526             | \$ 15,910        | \$ 9,616                                 | \$ 68,145             | \$ 47,727        | \$ 20,418                                |
| Distribution and administrative expenses | 23,250                | 8,217            | 15,033                                   | 46,694                | 23,347           | 23,347                                   |
| Other operating expenses                 | 7,889                 | 7,255            | 634                                      | 24,149                | 22,667           | 1,482                                    |
| Restructuring and severance              | 7                     | 228              | (221)                                    | 748                   | 1,358            | (610)                                    |
| Intangible asset amortization            | 978                   | 1,075            | (97)                                     | 3,035                 | 3,897            | (862)                                    |
| <b>Total operating expenses</b>          | <b>\$ 57,650</b>      | <b>\$ 32,685</b> | <b>\$ 24,965</b>                         | <b>\$ 142,771</b>     | <b>\$ 98,996</b> | <b>\$ 43,775</b>                         |

***Employment Expenses***

Employment expenses increased \$9.6 million or 60.4% and \$20.4 million or 42.8% in the three and nine months ended September 30, 2011, respectively, compared to the corresponding prior year periods primarily due to increases in variable compensation, both sales and profit based including \$1.2 million of DPG sales-related costs in the third quarter of 2011 related to the new closed end fund launch and \$3.2 million of additional employment expense in the third quarter of 2011 related to the addition of the Newfleet Multi-Sector team during the second quarter of 2011. The increases in sales and profit based variable compensation are the result of higher sales and improved profitability and operating metrics in the third quarter and first nine months of 2011 compared to the third quarter and first nine months of 2010.

***Distribution and Administrative Expenses***

Distribution and administrative expenses increased \$15.0 million or 182.9% and \$23.3 million or 100.0%, respectively, in the three and nine months ended September 30, 2011 compared to the corresponding prior year periods primarily due to closed-end fund structuring costs of \$9.6 million incurred in the third quarter of 2011 in connection with the launch of the DPG closed end fund and increases in asset-based trail commissions paid to our distribution partners, which increased \$2.1 million and \$5.3 million, respectively, consistent with increases in our assets

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under management. Trail commissions are fees we pay to broker-dealers for providing sales, marketing and distribution services to investors of our mutual funds. Also contributing to the increase were higher distribution and administrative expenses related to our variable insurance funds of \$1.2 million and \$3.9 million, respectively, for the three and nine months ended September 30, 2011 compared to the corresponding prior year periods due to the related increase in our assets under management, and higher sales-based fees paid to third party distribution partners which increased \$2.1 million and \$4.5 million, respectively, in the three and nine months ended September 30, 2011 compared to the corresponding prior year periods due to higher sales in the third quarter and first nine months of 2011 compared to the third quarter and first nine months of 2010.

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**Table of Contents*****Other Operating Expenses***

Other operating expenses increased \$0.6 million or 8.7% and \$1.5 million or 6.5%, respectively, in the three and nine months ended September 30, 2011 compared to the corresponding prior year periods primarily reflecting a full quarter of operating expenses related to the addition of the Newfleet Multi-Sector team in the second quarter of 2011. The modest increase, despite larger increases in assets under management and sales in 2011 compared to 2010, is a result of management's continued efforts to control fixed operating costs.

***Restructuring and Severance***

Restructuring and severance decreased \$0.2 million or 96.9% and \$0.6 million or 44.9%, respectively, in the three and nine months ended September 30, 2011 compared to the corresponding prior year periods. During 2011, we incurred severance costs as a result of the reduction in headcount at one of our affiliates. During 2010, we incurred severance costs due primarily to the departure of an individual employee of the Company.

***Intangible Asset Amortization***

Amortization expense decreased \$0.1 million or 9.0% and \$0.9 million or 22.1%, respectively, in the three and nine months ended September 30, 2011 compared to the corresponding prior year periods due to a number of intangible assets related to institutional contracts becoming fully amortized in the last twelve months offset by increased amortization expense of \$0.1 million and \$0.2 million, respectively, in the three and nine months of 2011 compared to the corresponding prior year periods related to the variable insurance fund investment management contracts acquired in 2010.

***Other Income and Expenses******Other Income (Expense), net***

Other income (expense) decreased \$2.6 million or 252.9% to (\$1.6) million and \$1.9 million or 202.5% to (\$0.9) million in the three and nine months ended September 30, 2011, respectively, compared to the corresponding prior year periods due primarily to declines in the market value of investments in our mutual funds during the three months ended September 30, 2011. The decline in the market value of our investments is consistent with the performance of the securities markets in the three months ended September 30, 2011.

***Interest Expense, net***

Interest expense is attributable primarily to long-term debt under our senior secured revolving credit facility ( Credit Facility ). Interest expense, net decreased in the three and nine months ended September 30, 2011 compared to the corresponding prior year periods primarily due to the refinancing of our Credit Facility in the third quarter of 2010 which lowered our interest rate. Our effective interest rate on long-term borrowings outstanding under our Credit Facility, inclusive of the amortization of deferred financing costs, was 4.29% as of September 30, 2011 compared to 5.15% as of September 30, 2010.

***Income Tax Expense***

Our effective tax rate was 28.3% and (9.0%), respectively, for three and nine months ended September 30, 2011 compared to 0.8% and 1.5%, respectively, for the same periods in the prior year. Our effective tax rate for the three and nine months ended September 30, 2011 was favorably impacted by provision to return adjustments for certain jurisdictions and a decrease in our estimate of 2011 state income taxes following the receipt of a favorable private letter ruling from the Internal Revenue Service regarding the application of Internal Revenue Code Section 165(g) (3) resulting in a capital loss to be claimed as an ordinary loss in the Company's 2010 federal income tax return.

***Preferred Stockholder Dividends***

On January 27, 2011, the Board of Directors of the Company declared cash dividends on our Series B Convertible Preferred Stock ( Preferred Stock ) for the three months ended December 31, 2010 of \$0.7 million, which we paid in March 2011. On April 28, 2011, the Board of Directors of the Company declared cash dividends on our Preferred Stock for the three months ended March 31, 2011 of \$0.7 million, which we paid in June 2011. On July 28, 2011, the Board of Directors of the Company declared cash dividends on our Preferred Stock for the three months ended June 30, 2011 of \$0.7 million, which we paid in September 2011. On October 27, 2011, the Company entered into an agreement with BMO Bankcorp, the holder of all of the Company's outstanding shares of Series B





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

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

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

| <i>(\$ in thousands)</i>      | <b>September 30,<br/>2011</b>                   | <b>December 31,<br/>2010</b> |
|-------------------------------|---|------------------------------|
| <b>Balance Sheet Data</b>     |   |                              |
| Cash and cash equivalents     | \$ 39,225                                       | \$ 43,948                    |
| Marketable securities         | 11,734  | 10,273                       |
| Long-term debt                | 15,000  | 15,000                       |
| Convertible preferred stock   | 35,921  | 35,921                       |
| Working capital (1)           | \$ 43,424                                       | \$ 44,206                    |
|                               | <b>Nine Months Ended September 30,<br/>2011</b> | <b>2010</b>                  |
| <b>Cash Flow Data</b>         |   |                              |
| <i>Provided by (used in):</i> |   |                              |
| Operating activities          | \$ 6,663  | \$ 12,751                    |
| Investing activities          | (759)   | (1,099)                      |
| Financing activities          | (10,627)  | (3,438)                      |

(1) Working capital is defined as current assets less current liabilities.

**Capital Requirements**

Our short-term capital requirements, which we consider to be those capital requirements due within one year, include payment of interest on our Credit Facility, payment of annual incentive compensation, payment of preferred stock dividends and contingent consideration payments for our variable insurance fund investment management contracts. 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 2011 and 2010, we paid approximately \$14.5 million and \$10.8 million, respectively, in incentive compensation related to incentives that were earned during the years ended December 31, 2010 and 2009, respectively. In the first nine months of 2011 and 2010, we paid preferred stock dividends of \$2.1 million and \$2.7 million, respectively. At September 30, 2011 and 2010, \$0.7 million and \$0.7 million, respectively, of dividends were accrued for payment on the Preferred Stock for the three months ended September 30, 2011 and 2010, respectively. On October 27, 2011, the Company entered into an agreement with BMO Bankcorp, the holder of all of the Company's outstanding shares of Series B Convertible Preferred Stock, to convert all 35,217 shares of Series B Convertible Preferred Stock into 1,349,300 shares of common stock, at the original conversion rate. In connection with this agreement, the Company made a dividend payment of \$8.1 million, representing accrued dividends of \$0.9 million plus the net present value of dividend payments through October 31, 2014, the earliest date that the Company could have called for BMO Bankcorp to redeem or convert, at BMO Bankcorp's discretion, all of its preferred shares. As of October 31, 2011, the Series B Convertible Preferred Stock is no longer



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entitled to receive preferred dividends. Short-term capital requirements may also be affected by employee withholding tax payments related to net share settlement upon vesting of restricted stock units. Approximately 300,000 restricted stock units are expected to vest in April 2012 that may require a large capital outlay related to employee withholding taxes. The amount we pay in future periods will vary based on our stock price, the number of restricted stock units vesting during the period and whether employees elect to satisfy withholding taxes through net share settlement or cash payment.

In the first nine months of 2011, we repurchased 135,000 common shares for \$7.9 million under our share repurchase program which was established in the fourth quarter of 2010. At September 30, 2011, there were 195,000 shares of common stock remaining for repurchase under the share repurchase program.

Future capital requirements include principal payments on our outstanding Credit Facility, which matures in September 2013, capital expenditures and other strategic initiatives.

### ***Uses of Capital***

We expect that our main uses of cash will be to (i) invest in our organic growth, including our distribution efforts or closed-end fund launches, (ii) seed new investment strategies and mutual funds to facilitate a strong pipeline of future saleable products, (iii) fund ongoing and potential investments in our infrastructure to achieve greater economies of scale and a more efficient overall cost structure (iv) acquire shares of our common stock and (v) invest in inorganic growth opportunities as they arise.

We anticipate that our available cash, marketable securities and cash expected to be generated from operations will be sufficient to fund our expected cash operating requirements and other capital requirements in the short-term, which we consider to be the next twelve months. Our ability to meet our future cash needs will depend upon our future operating performance and the level and mix of assets under management, as well as general economic conditions. Current or unexpected events that could require additional liquidity may occur affecting our results of operations, access to financing and generation of cash.

The financial markets have experienced a period of significant volatility over the past three years, which impacted asset flows and the value of our assets under management. The capital and financial markets could experience further fluctuation and volatility, which could impact relative investment returns and asset flows among investment products as well as investor choices and preferences among investment products, including equity, fixed income and alternative products. Should assets under management decline for any reason, revenues, operating income, net income and cash flow would be negatively impacted. If our revenues decline without a commensurate reduction in our expenses, our net income will be reduced.

### ***Capital and Reserve Requirements***

We have a subsidiary that is a broker-dealer registered with the SEC and is therefore subject to certain rules regarding minimum net capital, as defined by those rules. The subsidiary 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, tighter ratios and business interruption. At September 30, 2011 and 2010, the ratio of aggregate indebtedness to net capital of the broker-dealer was below the maximum allowed and our net capital was significantly in excess of that required.

### ***Operating Cash Flow***

Net cash provided by operating activities of \$6.7 million for the nine months ended September 30, 2011 decreased by \$6.1 million from net cash provided by operating activities of \$12.8 million in the same period in the prior year due primarily to increases in cash used in operating activities related to increased revenues including \$5.3 million from accounts receivable and \$5.5 million from third-party mutual fund commissions offset by a \$3.3 million increase in sales- and profit-based incentive compensation accruals. The decrease in net cash provided by operating activities also reflects the impact of \$9.6 million of DPG structuring costs which were expensed and funded in the third quarter of 2011 and the investment in the second quarter of 2011 of \$3.0 million for corporate purposes in several of our funds offset by a net increase of \$0.4 million in our seed capital investing activities for the nine months ended September 30, 2011. In addition, the Company satisfied its obligation related to an equity investment with repayment of \$1.8 million of previously received distributions in the second quarter of 2011. The increases in cash used in operating activities for the nine months ended September 30, 2011 were largely offset by earnings and changes in other noncash items as well as the impact of the timing of disbursements for recurring operating expenses compared with the same period in the prior year.



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***Investing Cash Flow***

Net cash used in investing activities of \$0.8 million for the nine months ended September 30, 2011 decreased by \$0.3 million from net cash used in investing activities in the same period in the prior year. Net cash used in investing activities consists of capital expenditures related to our business operations, the purchase of investment management contracts and purchases of available-for-sale securities.

***Financing Cash Flow***

Net cash used in financing activities of \$10.6 million for the nine months ended September 30, 2011 increased by \$7.2 million from net cash used in financing activities of \$3.4 million in the same period in the prior year due primarily to \$7.9 million of repurchases of our common shares offset by the decrease of \$0.6 million in preferred stock dividend payments as the conversion of 9,783 Preferred Stock shares into our common stock on August 2, 2010 resulted in fewer Preferred Stock shares outstanding in periods following the conversion, and by proceeds of \$0.7 million from the exercise of stock options. In addition, cash used in financing activities includes \$0.6 million of contingent payments for the variable insurance fund investment management contracts acquired in 2010 and payment of employee withholding taxes of \$0.7 million in the first nine months of 2011 compared to \$0.4 million in the same period in the prior year related to net share settlement of vested restricted stock units. Cash used in financing activities in 2010 also includes \$0.4 million of deferred financing costs paid in connection with the renegotiation of our Credit Facility in the prior year.

***Long-term Debt***

The Company has a Credit Facility, as amended, that provides a senior secured revolving credit facility for the Company that matures in September 2013. The amended Credit Facility provides borrowing capacity of up to \$30.0 million, with a \$2.0 million sub-limit for the issuance of standby letters of credit. Borrowings under the Credit Facility may not at any time exceed a minimum asset coverage ratio of 1.25 which in general represents the sum of the Company's cash, marketable securities and investment management fee receivables, excluding certain specified assets, to total outstanding indebtedness (including outstanding letters of credit). The Credit Facility is secured by substantially all of the assets of the Company. Throughout the quarter, \$15.0 million was outstanding under the Credit Facility. As of September 30, 2011, the Company had the capacity to draw on the entire amount of the Credit Facility.

Amounts outstanding under the Credit Facility bear interest at an annual rate equal to, at the Company's 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, effective August 2, 2010, that ranges from 1.25% to 3.00%. At September 30, 2011, the interest rate in effect for the Credit Facility was 2.56%, exclusive of the amortization of deferred financing costs. Under the terms of the Credit Facility the Company is also required to pay certain fees, including an annual commitment fee of 0.50% on undrawn amounts and a letter of credit participation fee at an annual rate equal to the applicable margin as well as any applicable fronting fees, each of which is payable quarterly in arrears.

The Credit Facility contains customary restrictive covenants, including covenants that restrict (subject in certain instances to minimum thresholds or exceptions) the ability of the Company and certain of its subsidiaries to incur additional indebtedness, create liens, merge or make acquisitions, dispose of assets, enter into leases, sale/leasebacks or acquisitions of capital stock, and make distributions, dividends, loans, guarantees, investments or capital expenditures, among other things. The payment of dividends may not exceed 75% of free cash flow (as defined in the Credit Facility agreement) for any quarter and are also restricted from being declared and paid if a default or event of default exists. On October 27, 2011, the Company amended the Credit Facility to exclude closed end fund structuring costs from the definition of free cash flow. In addition, the Credit Facility contains certain financial covenants, the most restrictive of which include, effective August 2, 2010: (i) minimum required consolidated net worth as of any fiscal quarter end (total stockholders' equity plus the liquidation preference of outstanding convertible preferred shares) to be at least \$65.0 million, plus adjustments for net income, redemptions of convertible securities and equity issuances, if any, after September 1, 2009, (ii) minimum consolidated assets under management (excluding money market funds) of \$15.0 billion as of each quarter end through March 31, 2012 and \$18.0 billion as of any quarter end thereafter, (iii) minimum liquid assets having a fair value not less than \$7.5 million, (iv) a minimum interest coverage ratio (generally, adjusted EBITDA to interest expense as defined in and for the period specified in the Credit Facility agreement) of at least 3.00:1, and (v) a leverage ratio (generally, total indebtedness as of any date to adjusted EBITDA as defined in and for the period specified in the Credit Facility agreement) of no greater than 2.75:1. For purposes of the Credit Facility, adjusted EBITDA generally means, for any period, net income of the Company before interest expense, income taxes, depreciation and amortization expense, and excluding non-cash stock-based compensation, unrealized mark-to-market gains and losses, certain severance, and certain non-cash non-recurring gains and losses as described in and specified under the Credit Facility agreement. At September 30, 2011, the Company was in compliance with all financial covenants.

The Credit Facility agreement also contains customary provisions regarding events of default, which could result in an acceleration of amounts due under the facility, including failure to pay principal or interest when due, failure to satisfy or comply with covenants, change of control, certain judgments, invalidation of liens, and cross-default to other debt obligations.



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***Series B Convertible Preferred Stock***

As of September 30, 2011, 35,217 shares of our Preferred Stock, \$1,000 stated value per share, were outstanding. The Preferred Stock is entitled to one vote for each share of our common stock into which the Preferred Stock is then convertible on all matters to be voted on by our shareholders, other than the election of directors; provided that the Preferred Stock is entitled to vote as a separate class to elect a Preferred Stock director (and pursuant to the Investment Agreement with BMO Bankcorp, so long as BMO Bankcorp continues to own beneficially not less than 10% of our common stock, BMO Bankcorp is entitled to nominate another director for election by our common shareholders). On October 27, 2011, the Company entered into an agreement with BMO Bankcorp, the holder of all of the Company's outstanding shares of Series B Convertible Preferred Stock, to convert all 35,217 shares of Series B Convertible Preferred Stock into 1,349,300 shares of common stock, at the original conversion rate. In connection with this agreement, the Company made a dividend payment of \$8.1 million, representing accrued dividends of \$0.9 million plus the net present value of dividend payments through October 31, 2014, the earliest date that the Company could have called for BMO Bankcorp to redeem or convert, at BMO Bankcorp's discretion, all of its preferred shares. As of October 31, 2011, the Series B Convertible Preferred Stock is no longer entitled to receive preferred dividends. Additionally, the Series B preferred shareholders lost the right to elect a Series B director to the Company's board of directors. As a result, the current Series B director resigned from the Company's board of directors effective October 31, 2011. Upon conversion, BMO Bankcorp has agreed that to the extent its holdings of common stock exceed 24% of the outstanding common stock solely by reason of the repurchase or redemption of common stock by the Company, the excess shares will be subject to an irrevocable proxy in favor of the Company to be voted in the same proportion as the votes cast by all shareholders other than BMO Bankcorp. The conversion is subject to regulatory approval.

**Liquidation Preference**

Upon a liquidation of the Company, and after satisfaction of creditors and before any distribution is made to holders of any junior stock, holders of Preferred Stock will be entitled until conversion to receive a per share amount equal to the greater of (i) the stated value then in effect, or (ii) the amount the holder of Preferred Stock would be entitled to receive if their Preferred Stock were converted into Company common stock at the conversion rate then in effect immediately prior to such liquidation through the date of liquidation (the greater of (i) and (ii) is called the liquidation preference). Upon conversion, as described above, there will be no shares of Preferred Stock outstanding and no holders will be entitled to a liquidation preference.

***Contractual Obligations***

Our contractual obligations are summarized in our Annual Report on Form 10-K for the year ended December 31, 2010. As of September 30, 2011, there have been no material changes outside of the ordinary course in our contractual obligations since December 31, 2010.

***Critical Accounting Policies and Estimates***

Our financial statements and the accompanying notes are prepared in accordance with Generally Accepted Accounting Principles (GAAP), 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 2010 Annual Report on Form 10-K. A complete description of our significant accounting policies is detailed in our 2010 Annual Report on Form 10-K. There was no material change in our critical accounting policies in the nine months ended September 30, 2011.

***Recently Issued Accounting Pronouncements***

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

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income*, which eliminates the current option to report other comprehensive income and its components in the statement of changes in equity and allows an entity to elect to present items of net income and other comprehensive income in one continuous statement or in two separate, but consecutive, statements. The Company is required to adopt this ASU as of January 1, 2012. Early adoption is permitted, but full retrospective application is required under this ASU. Adoption of this ASU is

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not expected to have an impact on the Company's financial position or results of operations.

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



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### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

#### ***Market Risk***

Our exposure to market risk is directly related to our role as investment advisor for the funds and accounts we manage as investment advisor. Most of our revenue for the three and nine months ended September 30, 2011 and 2010 was derived from investment management, distribution and fund administration fees, which are typically based on the market value of assets under management. Accordingly, a decline in the prices of securities would cause our revenue and income to decline due to a decrease in the value of the assets we manage. In addition, such a decline could cause our clients to withdraw their funds in favor of investments offering higher returns or lower risk, which would cause our revenue and income to decline further.

We are also subject to market risk due to a decline in the market value of our investments, consisting primarily of marketable securities. At September 30, 2011, the fair value of marketable securities was \$11.7 million. Assuming a 10% increase or decrease in the fair value of marketable securities at September 30, 2011, our net income would have changed by \$1.0 million and our total comprehensive income would have changed by \$1.2 million for the three and nine months ended September 30, 2011.

#### ***Interest Rate Risk***

At September 30, 2011, we have \$15.0 million outstanding under our Credit Facility that has a variable interest rate. Amounts outstanding under our 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, plus, in each case, an applicable margin that ranges from 1.25% to 3.00%. At September 30, 2011, the interest rate in effect for our Credit Facility was 2.56%. A hypothetical 300 basis point change in interest rates for the three and nine months ended September 30, 2011 would have changed our interest expense by approximately \$0.1 million.

### **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, 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 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 Securities Exchange Act of 1934) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on their evaluation, as of the end of the period covered by this Quarterly Report, 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.

#### ***Changes in Internal Controls***

There have been no significant changes in our internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f) under the Securities Exchange Act of 1934) 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**

We are regularly involved in litigation and arbitration as well as examinations and investigations by various regulatory bodies, including the SEC, involving our 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 advisor, broker-dealer or taxpayer. We cannot predict the ultimate outcome of such legal claims or matters or in certain instances provide reasonable ranges of potential losses. As of the date of this report, we believe that the outcomes of our legal or regulatory matters are not likely, either individually or in the aggregate, to have a material adverse effect on our consolidated financial condition. However, in the event of unexpected subsequent developments and given the inherent unpredictability of these legal and regulatory matters, there can be no assurance that



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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 our results of operations or cash flows in particular quarterly or annual periods.

**Item 1A. Risk Factors**

We have had no significant changes to our risk factors from those previously reported in our 2010 Annual Report on Form 10-K.

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

| <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> |
|------------------------|---|---|---|---|
| July 1 - 31, 2011      |   |   |   | 245,000   |
| August 1 - 31, 2011    | 50,000                                  | \$ 60.94                                | 50,000  | 195,000   |
| September 1 - 30, 2011 |   |   |   | 195,000   |

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

(2) The share repurchases above were completed pursuant to a program announced October 14, 2010. The Company is authorized to purchase a maximum of 350,000 shares. The program expires three years from inception.

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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The following exhibits are filed herewith or incorporated by reference:

**Item 6. Exhibits**

| <b>Exhibit Number</b> | <b>Description</b>   |
|-----------------------|--|
| 31.1                  | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                             |
| 31.2                  | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                             |
| 32.1                  | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS               | XBRL Instance Document   |
| 101.SCH               | XBRL Taxonomy Extension Schema Document  |
| 101.CAL               | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.LAB               | XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE               | XBRL Taxonomy Extension Presentation Linkbase Document   |

**Note to Exhibits List:**

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010, (ii) Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2011 and 2010, (iii) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010, and (iv) Notes to Condensed Consolidated Financial Statements. In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed filed or part of any registration statement or prospectus filed for purposes of Section 11 or 12 of the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

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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.

**VIRTUS INVESTMENT PARTNERS, INC.**  
(Registrant)

November 4, 2011

By: /s/ Michael A. Angerthal  
**Michael A. Angerthal**  
**Executive Vice President and Chief Financial Officer**  
  
**(Principal Financial and Accounting Officer)**