

VIRTUS INVESTMENT PARTNERS, INC.

Form 10-Q

August 05, 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 June 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 St., 9th Floor, 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 6,215,930 as of July 29, 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)**

|  | June 30,<br>2011 | December 31,<br>2010 |
|--|------------------|----------------------|
| <i>(\$ in thousands, except share data)</i>  |                  |                      |
| <b>Assets</b>  |                  |                      |
| Current Assets   |                  |                      |
| Cash and cash equivalents  | \$ 36,635        | \$ 43,948            |
| Trading securities, at fair value  | 13,129           | 8,357                |
| Available-for-sale securities, at fair value   | 2,221            | 1,916                |
| Accounts receivable  | 24,778           | 21,136               |
| Prepaid expenses and other assets  | 3,037            | 3,009                |
| <br>   |                  |                      |
| Total current assets   | 79,800           | 78,366               |
| Furniture, equipment, and leasehold improvements, net  | 5,945            | 6,557                |
| Intangible assets, net   | 51,078           | 52,977               |
| Goodwill   | 4,795            | 4,795                |
| Long-term investments (\$2,613 and \$2,340 at fair value, respectively) and other assets   | 9,696            | 6,216                |
| <br>   |                  |                      |
| Total assets   | \$ 151,314       | \$ 148,911           |
| <br>   |                  |                      |
| <b>Liabilities and Stockholders Equity</b>   |                  |                      |
| Current Liabilities  |                  |                      |
| Accrued compensation and benefits  | \$ 15,140        | \$ 19,245            |
| Accounts payable   | 6,178            | 4,229                |
| Income taxes payable   | 330              | 61                   |
| Other accrued liabilities  | 5,467            | 5,938                |
| Broker-dealer payable  | 5,311            | 4,687                |
| <br>   |                  |                      |
| Total current liabilities  | 32,426           | 34,160               |
| Deferred taxes, net  | 8,785            | 8,785                |
| Long-term debt   | 15,000           | 15,000               |
| Lease obligations and other long-term liabilities  | 6,465            | 6,775                |
| <br>   |                  |                      |
| Total liabilities  | 62,676           | 64,720               |
| <br>   |                  |                      |
| 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 June 30, 2011 and December 31, 2010, respectively | 35,921           | 35,921               |
| <br>   |                  |                      |
| <b>Stockholders Equity</b>   |                  |                      |
| Common stock, \$.01 par value, 1,000,000,000 shares authorized; 6,315,251 shares issued and 6,210,251 shares outstanding at June 30, 2011 and 6,271,821 shares issued and 6,251,821 shares outstanding at            | 63               | 63                   |

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|  |            |            |
|--|------------|------------|
| December 31, 2010  |            |            |
| Additional paid-in capital   | 914,549    | 912,942    |
| Accumulated deficit  | (855,970)  | (863,503)  |
| Accumulated other comprehensive loss   | (181)      | (308)      |
| Treasury stock, at cost, 105,000 shares and 20,000 shares at June 30, 2011 and December 31, 2010, respectively | (5,744)    | (924)      |
| Total stockholders' equity   | 52,717     | 48,270     |
| Total liabilities and stockholders' equity   | \$ 151,314 | \$ 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/>June 30,</b> |                 | <b>Six Months Ended<br/>June 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                                   | \$ 31,481                              | \$ 23,388       | \$ 60,312                            | \$ 47,802       |
| Distribution and service fees                                | 11,122                                 | 7,001           | 20,860                               | 13,410          |
| Administration and transfer agent fees                       | 5,817                                  | 3,964           | 10,990                               | 6,188           |
| Other income and fees  | 482                                    | 435             | 861                                  | 835             |
| Total revenues   | 48,902                                 | 34,788          | 93,023                               | 68,235          |
| <b>Operating Expenses</b>                                    |  |                 |                                      |                 |
| Employment expenses  | 23,050                                 | 15,458          | 42,619                               | 31,817          |
| Distribution and administration expenses                     | 12,367                                 | 7,786           | 23,444                               | 15,130          |
| Other operating expenses                                     | 7,936                                  | 7,434           | 15,286                               | 14,417          |
| Restructuring and severance                                  | 594                                    | 1,100           | 741                                  | 1,130           |
| Depreciation and amortization                                | 485                                    | 500             | 974                                  | 995             |
| Intangible asset amortization                                | 1,011                                  | 1,293           | 2,057                                | 2,822           |
| Total operating expenses                                     | 45,443                                 | 33,571          | 85,121                               | 66,311          |
| <b>Operating Income</b>                                      | <b>3,459</b>                           | <b>1,217</b>    | <b>7,902</b>                         | <b>1,924</b>    |
| <b>Other Income (Expense)</b>                                |  |                 |                                      |                 |
| Realized and unrealized gain (loss) on trading securities    | 278                                    | (526)           | 839                                  | (177)           |
| Other (expense) income                                       | 3                                      | 3               | (212)                                | 71              |
| Total other income (expense), net                            | 281                                    | (523)           | 627                                  | (106)           |
| <b>Interest Income (Expense)</b>                             |  |                 |                                      |                 |
| Interest expense   | (192)                                  | (267)           | (403)                                | (542)           |
| Interest and dividend income                                 | 65                                     | 77              | 111                                  | 247             |
| Total interest expense, net                                  | (127)                                  | (190)           | (292)                                | (295)           |
| <b>Income Before Income Taxes</b>                            | <b>3,613</b>                           | <b>504</b>      | <b>8,237</b>                         | <b>1,523</b>    |
| Income tax expense   | 417                                    | 91              | 704                                  | 50              |
| <b>Net Income</b>  | <b>3,196</b>                           | <b>413</b>      | <b>7,533</b>                         | <b>1,473</b>    |
| Preferred stockholder dividends                              | (704)                                  | (900)           | (1,408)                              | (1,800)         |
| Allocation of earnings to preferred stockholders             | (449)                                  |                 | (1,103)                              |                 |
| <b>Net Income (Loss) Attributable to Common Stockholders</b> | <b>\$ 2,043</b>                        | <b>\$ (487)</b> | <b>\$ 5,022</b>                      | <b>\$ (327)</b> |

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|  |         |           |         |           |
|--|---------|-----------|---------|-----------|
| Earnings (Loss) per share - Basic                            | \$ 0.33 | \$ (0.08) | \$ 0.81 | \$ (0.06) |
| Earnings (Loss) per share - Diluted                          | \$ 0.30 | \$ (0.08) | \$ 0.73 | \$ (0.06) |
| Weighted Average Shares Outstanding - Basic (in thousands)   | 6,238   | 5,854     | 6,238   | 5,843     |
| Weighted Average Shares Outstanding - Diluted (in thousands) | 6,887   | 5,854     | 6,898   | 5,843     |

See Notes to Condensed Consolidated Financial Statements.

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

|   | <b>Six Months Ended June 30,</b> |                  |
|---|----------------------------------|------------------|
|   | <b>2011</b>                      | <b>2010</b>      |
| <i>(\$ in thousands)</i>  |                                  |                  |
| <b>Cash Flows from Operating Activities:</b>                                      |                                  |                  |
| Net income  | \$ 7,533                         | \$ 1,473         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                  |                  |
| Depreciation and amortization   | 974                              | 995              |
| Intangible asset amortization   | 2,057                            | 2,822            |
| Stock-based compensation  | 2,518                            | 2,008            |
| Amortization of deferred commissions  | 3,609                            | 2,309            |
| Payments of deferred commissions  | (6,546)                          | (2,699)          |
| Equity in losses (earnings) of affiliates   | 223                              | (64)             |
| Realized and unrealized (gains) losses on trading securities                      | (839)                            | 177              |
| Sale (purchase) of trading securities, net  | (3,933)                          | 694              |
| Changes in operating assets and liabilities:                                      |                                  |                  |
| Accounts receivable   | (3,642)                          | 997              |
| Prepaid expenses and other assets   | (522)                            | 305              |
| Accounts payable and accrued liabilities  | (960)                            | (4,698)          |
| Income taxes payable  | 269                              | (432)            |
| Other liabilities   | (685)                            | 578              |
| Net cash provided by operating activities   | 56                               | 4,465            |
| <b>Cash Flows from Investing Activities:</b>                                      |                                  |                  |
| Capital expenditures  | (373)                            | (173)            |
| Purchase of investment management contracts                                       | (141)                            |                  |
| Purchase of available-for-sale securities   | (178)                            | (46)             |
| Net cash used in investing activities   | (692)                            | (219)            |
| <b>Cash Flows from Financing Activities:</b>                                      |                                  |                  |
| Contingent consideration for investment management contracts                      | (374)                            |                  |
| Preferred stock dividends paid  | (1,408)                          | (900)            |
| Repurchase of common shares, net  | (4,820)                          |                  |
| Proceeds from exercise of stock options   | 410                              |                  |
| Taxes paid related to net share settlement of RSUs                                | (485)                            | (380)            |
| Net cash used in financing activities   | (6,677)                          | (1,280)          |
| Net (decrease) increase in cash   | (7,313)                          | 2,966            |
| Cash and cash equivalents, beginning of period                                    | 43,948                           | 28,620           |
| <b>Cash and Cash Equivalents, end of period</b>                                   | <b>\$ 36,635</b>                 | <b>\$ 31,586</b> |
| Supplemental Cash Flow Information:   |                                  |                  |
| Interest paid   | \$ 201                           | \$ 262           |
| Income taxes paid   | \$ 434                           | \$ 526           |



See Notes to Condensed Consolidated Financial Statements.

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**Virtus Investment Partners, Inc.**

**Notes to Condensed Consolidated Financial Statements**

**(Unaudited)**

**1. Organization and Business**

Virtus Investment Partners, Inc. (the Company, we, us, our or Virtus ), a Delaware corporation, 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, foundations and endowments.

Harris Bankcorp, Inc. ( Harris Bankcorp ), a subsidiary of the Bank of Montreal, owns 100% of the Company s outstanding shares of Series B Convertible Preferred Stock.

**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 six months ended June 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:

|  | <b>June 30,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|--|--------------------------|------------------------------|
| <i>(\$ in thousands)</i>                 |                          |                              |
| <b>Definite-lived intangible assets:</b> |                          |                              |
| Investment contracts                     | \$ 271,709               | \$ 271,568                   |
| Accumulated amortization                 | (250,121)                | (248,081)                    |

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|   |               |               |
|---|---------------|---------------|
| Definite-lived intangible assets, net     | 21,588        | 23,487        |
| <b>Indefinite-lived intangible assets</b> | <b>29,490</b> | <b>29,490</b> |
| Total intangible assets, net              | \$ 51,078     | \$ 52,977     |

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Activity in intangible assets is as follows:

| (\$ in thousands)             | Six Months Ended<br>June 30, |                  |
|-------------------------------|------------------------------|------------------|
|                               | 2011                         | 2010             |
| <b>Intangible assets</b>      |                              |                  |
| Balance, beginning of period  | \$ 52,977                    | \$ 54,844        |
| Purchases                     | 141                          | 339              |
| Amortization                  | (2,040)                      | (2,822)          |
| <b>Balance, end of period</b> | <b>\$ 51,078</b>             | <b>\$ 52,361</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:

**June 30, 2011**

| (\$ in thousands)                                    | Cost             | Unrealized<br>Loss | Unrealized<br>Gain | Fair<br>Value    |
|--|------------------|--------------------|--------------------|------------------|
| <b>Trading:</b>                                      |                  |                    |                    |                  |
| Affiliated mutual funds and variable insurance funds | \$ 12,256        | \$ (728)           | \$ 1,601           | \$ 13,129        |
| <b>Available-for-sale:</b>                           |                  |                    |                    |                  |
| Affiliated closed-end funds                          | 2,159            | (53)               | 115                | 2,221            |
| <b>Total marketable securities</b>                   | <b>\$ 14,415</b> | <b>\$ (781)</b>    | <b>\$ 1,716</b>    | <b>\$ 15,350</b> |

**December 31, 2010**

| (\$ in thousands)                  | 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>         |                  |                    |                    |                  |
| 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 June 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 ASC 820, *Fair Value Measurements and Disclosures*, is quoted prices in active markets for identical assets or liabilities.

**5. Income Taxes**

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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.

In 2010, the Company recorded a deferred tax asset and corresponding valuation allowance for a capital loss in the amount of approximately \$93.0 million related to the dissolution of one of its inactive, wholly-owned subsidiaries. In April 2011, the Company submitted a request for a private letter ruling ( PLR ) to the Internal Revenue Service related to the application of Internal Revenue Code Section 165(g)(3) which may allow the capital loss to be claimed as an ordinary loss in the Company's 2010 federal income tax return. There can be no assurance that the Company will be successful in obtaining this PLR.

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As of June 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 six months ended June 30, 2011, the Company repurchased 35,000 and 85,000 common shares, respectively, at weighted-average prices per share of \$57.17 and \$56.65, respectively, under the Company's share repurchase program. The total cost of treasury shares acquired by the Company during the three and six months ended June 30, 2011 was approximately \$2.0 million and \$4.8 million, respectively. There were no share repurchases made under the program during the three and six months ended June 30, 2010. At June 30, 2011, there were 245,000 shares of common stock remaining for repurchase under the share repurchase program.

**7. Comprehensive Income**

The components of comprehensive income are as follows:

|   | Three Months Ended<br>June 30, |               | Six Months Ended<br>June 30, |                 |
|---|--------------------------------|---------------|------------------------------|-----------------|
|   | 2011                           | 2010          | 2011                         | 2010            |
| <i>(\$ in thousands)</i>  |                                |               |                              |                 |
| Net income  | \$ 3,196                       | \$ 413        | \$ 7,533                     | \$ 1,473        |
| Unrealized gain (loss) on available-for-sale securities, net of tax | 101                            | (18)          | 127                          | (143)           |
| <b>Total comprehensive income</b>                                   | <b>\$ 3,297</b>                | <b>\$ 395</b> | <b>\$ 7,660</b>              | <b>\$ 1,330</b> |

**8. Harris Bankcorp Related Party Transactions**

The Company acquired the rights to advise, distribute and administer the Insight Funds from Harris Investment Management, Inc. (Harris), a subsidiary of Harris Bankcorp, in May 2006 as further discussed in Note 11.

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 fee expenses paid or payable to Harris Bankcorp are summarized as follows:

|  | Three Months Ended<br>June 30, |      | Six Months Ended<br>June 30, |      |
|--|--------------------------------|------|------------------------------|------|
|  | 2011                           | 2010 | 2011                         | 2010 |

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*(\$ in thousands)*

|   |               |                 |                 |                 |
|---|---------------|-----------------|-----------------|-----------------|
| Sub-advisory investment management fees                   | \$ 778        | \$ 1,057        | \$ 1,617        | \$ 2,295        |
| Distribution and administration expenses                  | 41            | 135             | 118             | 248             |
| <b>Total fees and expenses related to Harris Bankcorp</b> | <b>\$ 819</b> | <b>\$ 1,192</b> | <b>\$ 1,735</b> | <b>\$ 2,543</b> |

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

**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 June 30, 2011, 1,800,000 shares of common stock were authorized for issuance under the Plan, of which 644,958 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 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 six months ended June 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 six months ended June 30, 2011 and 2010 in connection with these grants.

**Restricted Stock Units**

RSU activity for the six months ended June 30, 2011 is summarized as follows:

|                                  | Number<br>of shares | Weighted<br>Average<br>Grant Date<br>Fair Value |
|----------------------------------|---------------------|---|
| Outstanding at December 31, 2010 | 460,633             | \$ 13.39  |
| Granted                          | 159,255             | \$ 52.07  |
| Forfeited                        | (540)               | \$ 20.53  |
| Settled                          | (35,255)            | \$ 24.84  |
| Outstanding at June 30, 2011     | 584,093             | \$ 22.38  |

**Stock Options**

Stock option activity for the six months ended June 30, 2011 is summarized as follows:

|                                  | Number<br>of shares | Weighted<br>Average<br>Exercise Price |
|----------------------------------|---------------------|---------------------------------------|
| Outstanding at December 31, 2010 | 386,190             | \$ 20.83                              |
| Granted                          | 10,454              | \$ 55.30                              |
| Exercised                        | (9,623)             | \$ 42.60                              |
| Forfeited                        | (360)               | \$ 20.53                              |
| Outstanding at June 30, 2011     | 386,661             | \$ 21.22                              |



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|   |         |    |       |
|---|---------|----|-------|
| Vested and exercisable at June 30, 2011   | 143,475 | \$ | 36.18 |
| Options expected to vest at June 30, 2011 | 231,027 | \$ | 12.40 |

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The weighted-average fair value of options granted during the six months ended June 30, 2011 estimated as of the grant date using the Black-Scholes option valuation model was \$27.56 per common share. At June 30, 2011, outstanding stock options have an intrinsic value of \$15.3 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:

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

The Company estimates volatility based on the historical volatility of a peer group of publicly traded companies, which includes companies that are in the same industry or are 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 June 30, 2011 and 2010, the Company recognized \$1.7 million and \$1.2 million, respectively, in total stock-based compensation expense. During the six months ended June 30, 2011 and 2010, the Company recognized \$2.5 million and \$2.0 million, respectively, in total stock-based compensation expense. As of June 30, 2011, unamortized stock-based compensation expense for unvested RSUs and stock options was \$8.1 million and \$0.7 million, respectively, with weighted average remaining amortization periods of 1.3 years and 1.0 years, respectively.

The Company granted 73,310 performance contingent RSUs during the six months ended June 30, 2011. During the three months ended June 30, 2011 and 2010, total stock-based compensation expense includes \$0.3 million and \$0.1 million, respectively, for performance-based awards earned by employees as part of annual and long-term incentive compensation plans. During the six months ended June 30, 2011 and 2010, total stock-based compensation expense includes \$0.4 million and \$0.3 million, respectively, for performance-based awards earned by employees 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 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 basic 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.

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

|  | Three Months Ended |              | Six Months Ended |              |
|--|--------------------|--------------|------------------|--------------|
|  | June 30,           |              | June 30,         |              |
|  | 2011               | 2010         | 2011             | 2010         |
| <i>(\$ in thousands, except share data)</i>                              |                    |              |                  |              |
| <b>Net Income</b>  | \$ 3,196           | \$ 413       | \$ 7,533         | \$ 1,473     |
| Preferred stockholder dividends  | (704)              | (900)        | (1,408)          | (1,800)      |
| Allocation of earnings to preferred stockholders                         | (449)              |              | (1,103)          |              |
| <b>Net Income (Loss) Attributable to Common Stockholders</b>             | \$ 2,043           | \$ (487)     | \$ 5,022         | \$ (327)     |
| <b>Basic:</b>  |                    |              |                  |              |
| Weighted-average number of shares outstanding                            | 6,238              | 5,854        | 6,238            | 5,843        |
| Earnings per share - basic   | \$ 0.33            | \$ (0.08)    | \$ 0.81          | \$ (0.06)    |
| <b>Diluted:</b>  |                    |              |                  |              |
| Weighted-average number of shares outstanding                            | 6,238              | 5,854        | 6,238            | 5,843        |
| Plus: Incremental shares from assumed conversion of dilutive instruments | 649                |              | 660              |              |
| <b>Adjusted weighted-average number of shares outstanding</b>            | <b>6,887</b>       | <b>5,854</b> | <b>6,898</b>     | <b>5,843</b> |
| Earnings per share - diluted   | \$ 0.30            | \$ (0.08)    | \$ 0.73          | \$ (0.06)    |

For the three and six months ended June 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 months and six months ended June 30, 2010, non-participating securities (stock options) representing 390,442 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 these periods.

**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 provide reasonable ranges of potential losses. 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**

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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 June 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

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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.

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

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

*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.

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.

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### ***Financial Highlights***

Total sales of \$2.6 billion in the second quarter of 2011 and \$5.2 billion in the first half of 2011 increased 136.4% and 107.9%, respectively, from total sales of \$1.1 billion and \$2.5 billion, respectively, in the second quarter and first half of 2010, driven by higher long-term open-end mutual fund sales. Total sales and net flows exclude flows to cash management products, variable insurance funds and structured products. Long-term open-end mutual fund sales increased \$1.4 billion or 150.5% to \$2.4 billion in the second quarter of 2011 from \$1.0 billion in the second quarter of 2010. Long-term open-end mutual fund sales of \$4.7 billion in the first half of 2011 increased \$2.7 billion or 138.7% from \$2.0 billion in the first half of 2010.

Long-term open-end mutual fund sales remained balanced among asset strategies, and in the second quarter of 2011, 46.0% of sales were in domestic equity funds; 36.7% in fixed-income strategies; and 17.3% in international equity funds. The largest selling open-end mutual fund represented 36.2% of long-term open-end mutual fund sales in the second quarter of 2011, which compares favorably to the second quarter of 2010, when the largest selling open-end mutual fund represented 48.3% of long-term open-end mutual fund sales.

Net flows of \$1.5 billion and \$2.9 billion, primarily from long-term open-end mutual fund sales, for the second quarter and first half of 2011, respectively, and market appreciation of \$0.5 billion and \$1.4 billion for the second quarter and first half of 2011, respectively, contributed to an increase of \$1.4 billion or 4.4% and \$3.8 billion or 12.9% in assets under management to \$33.3 billion at June 30, 2011 from \$31.9 billion at March 31, 2011 and \$29.5 billion at December 31, 2010.

Total revenue was \$48.9 million in the second quarter of 2011, an increase of 40.5% from \$34.8 million in the second quarter of 2010. Investment management fees increased 34.6 % in the second quarter of 2011 to \$31.5 million from \$23.4 million in the second quarter of 2010. Total revenue increased in the second quarter of 2011 compared to the same period in the prior year as a result of increased mutual fund revenue and revenue from the variable insurance funds that we adopted in the fourth quarter of 2010.

Operating income increased \$2.2 million to \$3.5 million in the second quarter of 2011 compared to the same period in the prior year primarily due to the increased revenue from higher assets related to long-term mutual fund sales.

During the second quarter of 2011, we established Newfleet Multi-Sector as a new affiliated portfolio management team to manage \$5.2 billion of our fixed income assets and hired the investment professionals who previously managed those assets through an unaffiliated sub-advisory relationship. As of June 30, 2011, 72.1% of our assets under management were managed by affiliated managers.

On July 27, 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, which raised \$0.7 billion in assets that will be reflected in the third quarter of 2011, invests in domestic and foreign utility companies in the electric, gas, water, telecommunications, and midstream energy sectors.

### ***Assets Under Management***

At June 30, 2011, we managed \$33.3 billion in total assets representing an increase of \$8.2 billion or 32.7%, from the \$25.1 billion managed at June 30, 2010. Long-term assets under management, which exclude cash management products, were \$30.5 billion at June 30, 2011, an increase of 42.3% from June 30, 2010 and 7.1% from March 31, 2011. Average assets under management, which generally correspond to our fee-earning asset levels, were \$31.8 billion at June 30, 2011, an increase of 24.2% from \$25.6 billion at June 30, 2010. The increase in assets under management for the six months ended June 30, 2011 was due primarily to overall positive net flows of \$2.9 billion and market appreciation of \$1.4 billion. The positive net flows were primarily the result of strong sales of long-term open-end mutual fund products. Market appreciation for assets under management was consistent with the improving performance of the securities markets during the same period. Money market assets declined for the six months ended June 30, 2011 as investors continued to shift assets out of these products due to historically low interest rates.



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

The following table summarizes our assets under management by product:

| (\$ in millions)                       | As of June 30,     |                    |
|--|--------------------|--------------------|
|  | 2011               | 2010               |
| <b>Retail Assets</b>                   |                    |                    |
| <i>Mutual fund assets</i>              |                    |                    |
| Money market open-end funds            | \$ 2,122.6         | \$ 2,841.0         |
| Long-term open-end funds               | 15,471.8           | 9,398.0            |
| Closed-end funds                       | 4,545.0            | 4,015.2            |
| Total mutual fund assets               | 22,139.4           | 16,254.2           |
| <i>Variable Insurance Funds (1)</i>    | 1,511.6            |                    |
| <i>Separately managed accounts</i>     |                    |                    |
| Intermediary sponsored programs        | 2,151.4            | 1,565.8            |
| Private client accounts                | 1,939.6            | 1,885.8            |
| Total managed account assets           | 4,091.0            | 3,451.6            |
| <b>Total retail assets</b>             | <b>27,742.0</b>    | <b>19,705.8</b>    |
| <b>Institutional Assets</b>            |                    |                    |
| Institutional accounts                 | 4,488.3            | 4,494.8            |
| Structured finance products            | 1,094.0            | 918.9              |
| <b>Total institutional assets</b>      | <b>5,582.3</b>     | <b>5,413.7</b>     |
| <b>Total Assets Under Management</b>   | <b>\$ 33,324.3</b> | <b>\$ 25,119.5</b> |
| <b>Average Assets Under Management</b> | <b>\$ 31,754.3</b> | <b>\$ 25,588.4</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 June 30, 2010.

**Assets Under Management by Asset Class**

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

| (\$ in millions)   | 2011        | As of June 30, |             |       |
|--------------------|-------------|----------------|-------------|-------|
|                    |             | %              | 2010        | %     |
| <b>Asset Class</b> |             |                |             |       |
| Equity             | \$ 17,493.5 | 52.5%          | \$ 11,088.1 | 44.2% |
| Fixed Income       | 13,028.9    | 39.1%          | 10,358.9    | 41.2% |
| Cash               | 2,801.9     | 8.4%           | 3,672.5     | 14.6% |



|              |                    |               |                    |               |
|--------------|--------------------|---------------|--------------------|---------------|
| <b>Total</b> | <b>\$ 33,324.3</b> | <b>100.0%</b> | <b>\$ 25,119.5</b> | <b>100.0%</b> |
|--------------|--------------------|---------------|--------------------|---------------|

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

The following table summarizes our asset flows by product:

| <i>(\$ in millions)</i>                | <b>Three Months Ended June 30,</b> |                    | <b>Six Months Ended June 30,</b> |                    |
|--|------------------------------------|--------------------|----------------------------------|--------------------|
|  | <b>2011</b>                        | <b>2010</b>        | <b>2011</b>                      | <b>2010</b>        |
| <b>Retail Products</b>                 |                                    |                    |                                  |                    |
| <b>Mutual Funds - Long-term</b>        |                                    |                    |                                  |                    |
| Beginning balance                      | \$ 18,099.7                        | \$ 13,820.6        | \$ 16,122.4                      | \$ 13,159.1        |
| Inflows                                | 2,443.4                            | 975.4              | 4,785.9                          | 1,964.0            |
| Outflows                               | (805.8)                            | (708.5)            | (1,728.9)                        | (1,362.3)          |
| Net flows                              | 1,637.6                            | 266.9              | 3,057.0                          | 601.7              |
| Market appreciation (depreciation)     | 321.3                              | (654.9)            | 889.6                            | (306.6)            |
| Other (2)                              | (41.8)                             | (19.4)             | (52.2)                           | (41.0)             |
| <b>Ending balance</b>                  | <b>\$ 20,016.8</b>                 | <b>\$ 13,413.2</b> | <b>\$ 20,016.8</b>               | <b>\$ 13,413.2</b> |
| <b>Mutual Funds - Money Market</b>     |                                    |                    |                                  |                    |
| Beginning balance                      | \$ 2,614.6                         | \$ 3,034.2         | \$ 2,915.5                       | \$ 3,930.6         |
| Other (2)                              | (492.0)                            | (193.2)            | (792.9)                          | (1,089.6)          |
| <b>Ending balance</b>                  | <b>\$ 2,122.6</b>                  | <b>\$ 2,841.0</b>  | <b>\$ 2,122.6</b>                | <b>\$ 2,841.0</b>  |
| <b>Variable Insurance Funds (1)</b>    |                                    |                    |                                  |                    |
| Beginning balance                      | \$ 1,553.3                         | \$                 | \$ 1,538.5                       | \$                 |
| Other (2) (4)                          | (41.7)                             |                    | (26.9)                           |                    |
| <b>Ending balance</b>                  | <b>\$ 1,511.6</b>                  | <b>\$</b>          | <b>\$ 1,511.6</b>                | <b>\$</b>          |
| <b>Separately Managed Accounts (3)</b> |                                    |                    |                                  |                    |
| Beginning balance                      | \$ 4,005.1                         | \$ 3,642.3         | \$ 3,833.0                       | \$ 3,551.8         |
| Inflows                                | 152.1                              | 115.1              | 364.1                            | 231.6              |
| Outflows                               | (173.8)                            | (169.9)            | (371.9)                          | (325.6)            |
| Net flows                              | (21.7)                             | (54.8)             | (7.8)                            | (94.0)             |
| Market appreciation (depreciation)     | 115.8                              | (134.4)            | 337.3                            | 1.5                |
| Other (2)                              | (8.2)                              | (1.5)              | (71.5)                           | (7.7)              |
| <b>Ending balance</b>                  | <b>\$ 4,091.0</b>                  | <b>\$ 3,451.6</b>  | <b>\$ 4,091.0</b>                | <b>\$ 3,451.6</b>  |
| <b>Institutional Products (3)</b>      |                                    |                    |                                  |                    |
| <b>Institutional Accounts (1)</b>      |                                    |                    |                                  |                    |
| Beginning balance                      | \$ 4,627.1                         | \$ 4,219.1         | \$ 4,087.7                       | \$ 3,929.8         |
| Inflows                                | 44.4                               | 31.5               | 93.3                             | 326.2              |
| Outflows                               | (135.6)                            | (75.5)             | (204.8)                          | (258.6)            |
| Net flows                              | (91.2)                             | (44.0)             | (111.5)                          | 67.6               |
| Market appreciation (depreciation)     | 61.3                               | (15.9)             | 166.0                            | 150.1              |
| Other (2)                              | (108.9)                            | 335.6              | 346.1                            | 347.3              |
| <b>Ending balance</b>                  | <b>\$ 4,488.3</b>                  | <b>\$ 4,494.8</b>  | <b>\$ 4,488.3</b>                | <b>\$ 4,494.8</b>  |

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| <b>Structured Products</b>         |                    |                    |                    |                    |
|------------------------------------|--------------------|--------------------|--------------------|--------------------|
| Beginning balance                  | \$ 1,012.1         | \$ 909.1           | \$ 976.2           | \$ 868.4           |
| Other (2)                          | 81.9               | 9.8                | 117.8              | 50.5               |
| <b>Ending balance</b>              | <b>\$ 1,094.0</b>  | <b>\$ 918.9</b>    | <b>\$ 1,094.0</b>  | <b>\$ 918.9</b>    |
| <b>Total</b>                       |                    |                    |                    |                    |
| Beginning balance                  | \$ 31,911.9        | \$ 25,625.3        | \$ 29,473.3        | \$ 25,439.7        |
| Inflows                            | 2,639.9            | 1,122.0            | 5,243.3            | 2,521.8            |
| Outflows                           | (1,115.2)          | (953.9)            | (2,305.6)          | (1,946.5)          |
| Net flows                          | 1,524.7            | 168.1              | 2,937.7            | 575.3              |
| Market appreciation (depreciation) | 498.4              | (805.2)            | 1,392.9            | (155.0)            |
| Other (2)                          | (610.7)            | 131.3              | (479.6)            | (740.5)            |
| <b>Ending balance</b>              | <b>\$ 33,324.3</b> | <b>\$ 25,119.5</b> | <b>\$ 33,324.3</b> | <b>\$ 25,119.5</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 VIT representing \$0.3 billion of variable insurance funds which was included in Institutional Products as of January 1, 2010, March 31, 2010 and June 30, 2010.
- (2) Comprised, as applicable, of mutual fund dividends distributed, net flows on cash management strategies and variable insurance funds, market appreciation (depreciation) on variable insurance funds and structured products, and acquisitions (dispositions) of investment contracts, as applicable.

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- (3) Excluding cash management products, Separately Managed Accounts and Institutional Products ending assets under management are as follows:

|   | As of June 30, |            |
|---|----------------|------------|
|   | 2011           | 2010       |
| Separately Managed Accounts-Ending Assets | \$ 4,035.9     | \$ 3,327.7 |
| Institutional Products-Ending Assets      | \$ 4,958.1     | \$ 4,706.1 |

- (4) Comprised of net flows of \$(64.5) and \$(133.6) for the three and six months ended June 30, 2011, respectively.

**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 June 30,                  |           |   |                    |
|---------------------------------|--|-----------|---|--------------------|
|                                 | Average Fees Earned<br>(expressed in<br>BPs) |           | Average Fee Earning Assets<br>(in millions) |                    |
|                                 | 2011   | 2010      | 2011  | 2010               |
| Mutual Funds - Long-term (1)    | 44   | 43        | \$ 19,170.2                                 | \$ 13,966.0        |
| Mutual Funds - Money Market (1) | 4  | 5         | 2,522.2                                     | 2,921.9            |
| Variable Insurance Funds (1)    | 39   |           | 1,531.0                                     |                    |
| Separately Managed Accounts (2) | 49   | 47        | 4,005.1                                     | 3,642.3            |
| Institutional Products (2)      | 27   | 28        | 5,577.4                                     | 5,210.9            |
| <b>All Products</b>             | <b>39</b>                                    | <b>36</b> | <b>\$ 32,805.9</b>                          | <b>\$ 25,741.1</b> |

| Products                        | Six Months Ended June 30,                       |           |   |                    |
|---------------------------------|---|-----------|---|--------------------|
|                                 | Average Fees<br>Earned<br>(expressed in<br>BPs) |           | Average Fee Earning Assets<br>(in millions) |                    |
|                                 | 2011  | 2010      | 2011  | 2010               |
| Mutual Funds - Long-term (1)    | 44  | 44        | \$ 18,160.0                                 | \$ 13,735.3        |
| Mutual Funds - Money Market (1) | 4   | 5         | 2,650.0                                     | 3,193.9            |
| Variable Insurance Funds (1)    | 39  |           | 1,540.7                                     |                    |
| Separately Managed Accounts (2) | 49  | 48        | 3,919.1                                     | 3,597.0            |
| Institutional Products (2)      | 27  | 34        | 5,484.5                                     | 5,062.2            |
| <b>All Products</b>             | <b>38</b>                                       | <b>38</b> | <b>\$ 31,754.3</b>                          | <b>\$ 25,588.4</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:

| Three Months Ended June 30, |      | Six Months Ended June 30, |      |
|-----------------------------|------|---------------------------|------|
| 2011                        | 2010 | 2011                      | 2010 |

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|  |            |            |            |            |
|--|------------|------------|------------|------------|
| Separately Managed Accounts-Average Assets                 | \$ 3,943.5 | \$ 3,508.5 | \$ 3,919.1 | \$ 3,597.0 |
| Separately Managed Accounts-Average Fees (in basis points) | 49         | 49         | 49         | 48         |
| Institutional Products-Average Assets                      | \$ 4,919.4 | \$ 4,748.4 | \$ 5,484.5 | \$ 5,062.2 |
| Institutional Products-Average Fees (in basis points)      | 30         | 31         | 27         | 34         |

The average fee earning assets under management and average fees earned expressed in basis points presented in the table 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 variable insurance funds will vary based on several factors, including the asset mix and fund reimbursements. Separately managed 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

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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 six months ended June 30, 2011 compared to the corresponding period in the prior year as assets under management from equity products, which have higher fees, increased in proportion to our overall portfolio. However, average fees earned on institutional products were approximately 10 basis points higher than normal during the six months ended June 30, 2010 due to 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**

| (\$ in thousands)  | Three Months Ended |                 | Increase/<br>(Decrease)<br>2011 vs. 2010 | Six Months Ended |                 | Increase/<br>(Decrease)<br>2011 vs. 2010 |
|--|--------------------|-----------------|--|------------------|-----------------|--|
|  | June 30,<br>2011   | 2010            |  | June 30,<br>2011 | 2010            |  |
| <b>Results of Operations</b>                                 |                    |                 |  |                  |                 |  |
| Investment management fees                                   | \$ 31,481          | \$ 23,388       | \$ 8,093                                 | \$ 60,312        | \$ 47,802       | \$ 12,510                                |
| Other revenue  | 17,421             | 11,400          | 6,021                                    | 32,711           | 20,433          | 12,278                                   |
| <b>Total revenues</b>  | <b>48,902</b>      | <b>34,788</b>   | <b>14,114</b>                            | <b>93,023</b>    | <b>68,235</b>   | <b>24,788</b>                            |
| Operating expenses   | 44,432             | 32,278          | 12,154                                   | 83,064           | 63,489          | 19,575                                   |
| Intangible asset amortization                                | 1,011              | 1,293           | (282)                                    | 2,057            | 2,822           | (765)                                    |
| <b>Total expenses</b>  | <b>45,443</b>      | <b>33,571</b>   | <b>11,872</b>                            | <b>85,121</b>    | <b>66,311</b>   | <b>18,810</b>                            |
| <b>Operating income</b>                                      | <b>3,459</b>       | <b>1,217</b>    | <b>2,242</b>                             | <b>7,902</b>     | <b>1,924</b>    | <b>5,978</b>                             |
| Other income (expense)                                       | 281                | (523)           | 804                                      | 627              | (106)           | 733                                      |
| Interest expense, net  | (127)              | (190)           | 63                                       | (292)            | (295)           | 3  |
| <b>Income before income taxes</b>                            | <b>3,613</b>       | <b>504</b>      | <b>3,109</b>                             | <b>8,237</b>     | <b>1,523</b>    | <b>6,714</b>                             |
| Income tax expense   | 417                | 91              | 326                                      | 704              | 50              | 654                                      |
| <b>Net income</b>  | <b>3,196</b>       | <b>413</b>      | <b>2,783</b>                             | <b>7,533</b>     | <b>1,473</b>    | <b>6,060</b>                             |
| Preferred stockholder dividends                              | (704)              | (900)           | 196                                      | (1,408)          | (1,800)         | 392                                      |
| Allocation of earnings to preferred stockholders             | (449)              |                 | (449)                                    | (1,103)          |                 | (1,103)                                  |
| <b>Net income (loss) attributable to common stockholders</b> | <b>\$ 2,043</b>    | <b>\$ (487)</b> | <b>\$ 2,530</b>                          | <b>\$ 5,022</b>  | <b>\$ (327)</b> | <b>\$ 5,349</b>                          |

**Revenues**

Revenues by source are as follows:

| (\$ in thousands)                 | Three Months Ended |           | Increase/<br>(Decrease)<br>2011 vs. 2010 | Six Months Ended |           | Increase/<br>(Decrease)<br>2011 vs. 2010 |
|-----------------------------------|--------------------|-----------|--|------------------|-----------|--|
|                                   | June 30,<br>2011   | 2010      |  | June 30,<br>2011 | 2010      |  |
| <b>Investment management fees</b> |                    |           |  |                  |           |  |
| Mutual funds                      | \$ 21,378          | \$ 15,423 | \$ 5,955                                 | \$ 40,301        | \$ 30,650 | \$ 9,651                                 |

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|   |                  |                  |                  |                  |                  |                  |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
| Separately managed accounts                   | 4,843            | 4,298            | 545              | 9,539            | 8,611            | 928              |
| Institutional accounts                        | 2,966            | 2,837            | 129              | 5,858            | 5,578            | 280              |
| Structured finance products                   | 807              | 830              | (23)             | 1,604            | 2,963            | (1,359)          |
| Variable insurance funds                      | 1,487            |                  | 1,487            | 3,010            |                  | 3,010            |
| <b>Total investment management fees</b>       | <b>31,481</b>    | <b>23,388</b>    | <b>8,093</b>     | <b>60,312</b>    | <b>47,802</b>    | <b>12,510</b>    |
| <b>Distribution and service fees</b>          | <b>11,122</b>    | <b>7,001</b>     | <b>4,121</b>     | <b>20,860</b>    | <b>13,410</b>    | <b>7,450</b>     |
| <b>Administration and transfer agent fees</b> | <b>5,817</b>     | <b>3,964</b>     | <b>1,853</b>     | <b>10,990</b>    | <b>6,188</b>     | <b>4,802</b>     |
| <b>Other income and fees</b>                  | <b>482</b>       | <b>435</b>       | <b>47</b>        | <b>861</b>       | <b>835</b>       | <b>26</b>        |
| <b>Total revenues</b>                         | <b>\$ 48,902</b> | <b>\$ 34,788</b> | <b>\$ 14,114</b> | <b>\$ 93,023</b> | <b>\$ 68,235</b> | <b>\$ 24,788</b> |

*Investment Management Fees*

Investment management fees increased \$8.1 million or 34.6% and \$12.5 million or 26.2% for the three and six months ended June 30, 2011, respectively, due to a 27.4% and 24.1% increase in average fee earning assets under management compared to the corresponding prior year periods. The increase in average fee earning assets under management for the three and six months ended June 30, 2011 was due primarily to overall positive net flows of \$1.5 billion and \$2.9 billion, respectively, primarily from strong sales of long-term open-end mutual funds and market appreciation of \$0.5 billion and \$1.4 billion, respectively. Offsetting the increase in investment management fees for the three and six months ended June 30, 2011 were higher fund expense reimbursements of \$0.5 million and \$1.3 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 half of 2011 than in the first half of 2010 due to recognition of \$1.3 million of revenue in the first half 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.

**Table of Contents*****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 58.9% and \$7.5 million or 55.6% for the three and six months ended June 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 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 \$1.9 million or 46.7% and \$4.8 million or 77.6%, respectively, for the three and six months ended June 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. In connection with the amendment, we implemented additional expense caps that require us to reimburse funds for expenses that exceed defined thresholds, resulting in higher fund expense reimbursements for the three and six months ended June 30, 2011 compared to the corresponding prior year periods, which are recorded as a reduction to investment management fees.

***Operating Expenses***

Operating expenses by category were as follows:

| (\$ in thousands)                        | Three Months Ended |                  | Increase/<br>(Decrease)<br>2011 vs. 2010 | Six Months Ended |                  | Increase/<br>(Decrease)<br>2011 vs. 2010 |
|--|--------------------|------------------|--|------------------|------------------|--|
|  | June 30,<br>2011   | 2010             |  | June 30,<br>2011 | 2010             |  |
| <b>Operating expenses</b>                |                    |                  |  |                  |                  |  |
| Employment expenses                      | \$ 23,050          | \$ 15,458        | \$ 7,592                                 | \$ 42,619        | \$ 31,817        | \$ 10,802                                |
| Distribution and administrative expenses | 12,367             | 7,786            | 4,581                                    | 23,444           | 15,130           | 8,314                                    |
| Other operating expenses                 | 8,421              | 7,934            | 487                                      | 16,260           | 15,412           | 848                                      |
| Restructuring and severance              | 594                | 1,100            | (506)                                    | 741              | 1,130            | (389)                                    |
| Intangible asset amortization            | 1,011              | 1,293            | (282)                                    | 2,057            | 2,822            | (765)                                    |
| <b>Total operating expenses</b>          | <b>\$ 45,443</b>   | <b>\$ 33,571</b> | <b>\$ 11,872</b>                         | <b>\$ 85,121</b> | <b>\$ 66,311</b> | <b>\$ 18,810</b>                         |

***Employment Expenses***

Employment expenses increased \$7.6 million or 49.1% and \$10.8 million or 34.0% in the three and six months ended June 30, 2011, respectively, compared to the corresponding prior year periods primarily due to increases in variable compensation, both sales and profit based and additional employment expense in the three and six months ended June 30, 2011 related to the addition of the Newfleet Multi-Sector team. The increases in sales and profit based variable compensation are the result of higher sales and improved profitability and operating metrics in the second quarter and first half of 2011 compared to the second quarter and first half of 2010.

***Distribution and Administrative Expenses***

Distribution and administrative expenses increased \$4.6 million or 58.8% and \$8.3 million or 55.0%, respectively, in the three and six months ended June 30, 2011 compared to the corresponding prior year periods due to increases in asset-based trail commissions paid to our distribution partners which increased \$1.6 million and \$3.2 million, respectively, consistent with increases in our assets 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 increased distribution and administrative expenses related to our variable insurance funds of \$1.3 million and \$2.7 million, respectively, for the three and six months ended June 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 \$1.7 million and \$2.4 million, respectively, in the three and six months ended June 30, 2011 compared to the corresponding prior year periods due to higher sales in the second quarter and first half of 2011 compared to the second quarter and first half of 2010.



*Other Operating Expenses*

Other operating expenses increased \$0.5 million or 6.1% and \$0.8 million or 5.5%, respectively, in the three and six months ended June 30, 2011 compared to the corresponding prior year periods primarily due to \$0.4 million of start-up expenses related to the

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addition of the Newfleet Multi-Sector team. 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 \$0.5 million or 46.0% and \$0.4 million or 34.4%, respectively, in the three and six months ended June 30, 2011 compared to the corresponding prior year periods. During the three and six months ended June 30, 2011, we incurred \$0.6 million and \$0.7 million, respectively, of severance costs as a result of the reduction in headcount at one of our affiliates. During the three and six months ended June 30, 2010, we incurred \$1.1 million of severance costs due primarily to the departure of an individual employee of the Company.

### ***Intangible Asset Amortization***

Amortization expense decreased \$0.3 million or 21.8% and \$0.8 million or 27.1%, respectively, in the three and six months ended June 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 in the first half of 2011 compared to the corresponding prior year period related to the variable insurance fund investment management contracts acquired in 2010.

### ***Other Income and Expenses***

#### ***Other Income (Expense)***

Other income increased \$0.8 million or 153.7% and \$0.7 million or 691.5% in the three and six months ended June 30, 2011, respectively, compared to the corresponding prior year periods due primarily to increases in the market value of trading securities as compared to 2010 offset by a decline in the estimated fair value of an equity investment.

#### ***Interest Expense, net***

Interest expense is attributable primarily to long-term debt under our Credit Facility. Interest expense decreased \$75,000 and \$139,000, respectively, in the three and six months ended June 30, 2011 compared to the corresponding prior year periods 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 4.38% as of June 30, 2011 compared to 6.29% as of June 30, 2010. Interest and dividend income in the three and six months ended June 30, 2011, respectively, decreased \$12,000 and \$136,000 compared to the corresponding prior year periods.

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

Our effective tax rate was 11.5% and 8.5%, respectively, for three and six months ended June 30, 2011 compared to 4.5% and 3.3%, respectively, for the same periods in the prior year. The increase in the effective tax rate for the three months and six months ended June 30, 2011 was primarily due to the mix of earnings in various state taxing jurisdictions and certain discrete items.

#### ***Preferred Stockholder Dividends***

On January 27, 2011, the Board of Directors of the Company declared cash dividends on our Series B Convertible 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 Series B Convertible 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 Series B Convertible Preferred Stock for the three months ended June 30, 2011, which we expect to pay in September 2011.

These dividends may be paid either in cash or additional shares of our Series B Convertible Preferred Stock at the discretion of the Company, subject to limitations on dividends under our Credit Facility and, with respect to payment of any accrued dividend in additional shares, approval by our Board of Directors and authorization of the issuance of additional preferred shares by the holders of Series B Convertible Preferred Stock.



**Table of Contents****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>June 30, 2011</b>             | <b>December 31, 2010</b> |
|-------------------------------|----------------------------------|--------------------------|
| <b>Balance Sheet Data</b>     |                                  |                          |
| Cash and cash equivalents     | \$ 36,635                        | \$ 43,948                |
| Marketable securities         | 15,350                           | 10,273                   |
| Long-term debt                | 15,000                           | 15,000                   |
| Convertible preferred stock   | 35,921                           | 35,921                   |
| Working capital (1)           | \$ 47,374                        | \$ 44,206                |
|                               | <b>Six Months Ended June 30,</b> | <b>2011</b>              |
|                               | <b>2011</b>                      | <b>2010</b>              |
| <b>Cash Flow Data</b>         |                                  |                          |
| <i>Provided by (used in):</i> |                                  |                          |
| Operating activities          | \$ 56                            | \$ 4,465                 |
| Investing activities          | (692)                            | (219)                    |
| Financing activities          | (6,677)                          | (1,280)                  |

(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 half of 2011 and 2010, we paid preferred stock dividends of \$1.4 million and \$0.9 million, respectively. At June 30, 2011 and 2010, \$0.7 million and \$1.8 million, respectively, of dividends was accrued for payment of the Series B Convertible Preferred Stock for the three months ended June 30, 2011 and the six months ended June 30, 2010, respectively. Short-term capital requirements may also be affected by employee withholding tax payments related to net share settlement upon vesting of restricted stock units. 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 half of 2011, we repurchased 85,000 common shares for \$4.8 million under our share repurchase program which was established in the fourth quarter of 2010. At June 30, 2011, there were 245,000 shares of common stock remaining for repurchase under the share repurchase program.

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

**Uses of Cash**

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 mutual funds to ensure 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 and (iv) acquire shares of our common stock. In July 2011, we funded \$9.6 million of closed-end fund launch costs associated with the Duff & Phelps Global Utility Income Fund Inc. which began trading on July 27, 2011.

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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

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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 June 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 \$0.1 million for the six months ended June 30, 2011 decreased by \$4.4 million from net cash provided by operating activities of \$4.5 million in the same period in the prior year due primarily to increases in cash used in operating activities related to increased revenues including \$4.6 million from accounts receivable and \$3.8 million from third-party mutual fund commissions offset by a \$4.8 million increase in sales- and profit-based incentive compensation accruals. The decrease in net cash provided by operating activities also reflects a net increase of \$1.6 million in our seed capital investing activities and the investment of \$3.0 million for corporate purposes in several of our funds. In addition, in the three months ended June 30, 2011, the Company satisfied its obligation related to an equity investment with repayment of \$1.8 million of previously received distributions. The increases in cash used in operating activities for the six months ended June 30, 2011 were largely offset by the increase of \$6.1 million (including \$2.9 million of Newfleet Multi-Sector team operating expenses) in cash provided 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.

### ***Investing Cash Flow***

Net cash used in investing activities of \$0.7 million for the six months ended June 30, 2011 increased by \$0.5 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. The \$0.1 million of cash used to purchase investment management contracts in the first half of 2011 relates to the payment of transaction costs incurred in 2010 in connection with acquiring the rights to advise and distribute certain variable insurance funds from a third-party variable insurance trust.

### ***Financing Cash Flow***

Net cash used in financing activities of \$6.7 million for the six months ended June 30, 2011 increased by \$5.4 million from net cash used in financing activities of \$1.3 million in the same period in the prior year due primarily to \$4.8 million of repurchases of our common shares and the increase of \$0.5 million in preferred stock dividend payments due to the timing of 2010 dividend payments, although fewer Series B shares are currently outstanding, offset by proceeds of \$0.4 million from the exercise of stock options. In addition, cash used in financing activities includes \$0.4 million of contingent payments for the variable insurance fund investment management contracts acquired in 2010 and payment of employee withholding taxes of \$0.5 million in the first half 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.

### ***Long-term Debt***

The Company has a Credit Facility, as amended through August 2, 2010, 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

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all of the assets of the Company. Throughout the quarter, \$15.0 million was outstanding under the Credit Facility. As of June 30, 2011, the Company had the capacity to draw on the entire amount of the Credit Facility.

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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 an applicable margin, effective August 2, 2010, that ranges from 1.25% to 3.00%. At June 30, 2011, the interest rate in effect for the Credit Facility was 2.50%, 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. 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 June 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.

***Series B Convertible Preferred Stock***

As of June 30, 2011, 35,217 shares of our Series B Convertible Preferred Stock, \$1,000 stated value per share, were outstanding. The Series B is entitled to one vote for each share of our common stock into which the Series B is then convertible on all matters to be voted on by our shareholders, other than the election of directors; provided that the Series B is entitled to vote as a separate class to elect a Series B director (and Harris Bankcorp is entitled to nominate another director for election by our common shareholders). In addition, the Series B is entitled to vote separately as a class on certain corporate transactions, including, among other things, certain mergers or sales of all or substantially all of the assets of the Company or its subsidiaries (or similar transactions) until December 31, 2011; any issuance of equity securities of the Company or its subsidiaries, except in certain limited circumstances; or our repurchase or other acquisition of our outstanding common stock. Additional significant terms of the Series B Convertible Preferred Stock and the rights of Harris Bankcorp pursuant to the Investment Agreement and Series B Certificate of Designations include, without limitation, the following:

**Dividends**

When and if declared by our Board of Directors, the holders of our Series B Convertible Preferred Stock are entitled to receive quarterly dividends per share, payable in arrears, equal to 8.0% per annum of the stated value then in effect, before any dividends are declared or paid on any equity securities of the Company that rank junior to the Series B Convertible Preferred Stock. At our discretion, such dividends may be paid in cash or in additional shares of the Series B Convertible Preferred Stock and, with respect to payment of any accrued dividend in additional shares, approval by our Board of Directors and authorization of the issuance of additional preferred shares by the holders of our Series B Convertible Preferred Stock. Dividends payable on the Series B Convertible Preferred Stock are cumulative and accumulate daily, whether or not declared and whether or not there are profits legally available for their payment. Under the terms of our Credit Facility, payment of dividends on the Series B Convertible Preferred Stock 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. When declaring the quarterly dividends, considerations of the Board of Directors include whether funds are lawfully available for payment of the dividend, our liquidity position and capital requirements, limitations imposed by any outstanding debt arrangements, the capital market environment and operating results and outlook.

**Conversion**



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Holders of Series B may convert any or all of their shares into shares of Company common stock at any time at the conversion rate set out below. In the event that the holders of a majority of the outstanding Series B approve a conversion of the Series

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B, all of the shares of Series B will be converted automatically into shares of Company common stock at the conversion rate set out below.

The conversion rate for each share of Series B is currently 38.3139 shares of our common stock for each share of Series B. The conversion rate is subject to customary anti-dilution adjustments. During the fourth quarter of 2010, a conversion feature of the Preferred Stock agreement was triggered when the Company's common stock exceeded 175% of the then applicable conversion price for twenty days in which the common stock was traded. As a result of this triggering event, the Company may elect to cause each share of Series B Convertible Preferred Stock to be converted into shares of common stock of the Company at the conversion rate in effect. However, if the Company makes such an election, holders of Series B Convertible Preferred Stock may alternatively elect to retain their shares of Series B Convertible Preferred Stock and forfeit their right to thereafter participate in any dividends paid on our common stock while they continue to hold the preferred shares. The Company has not made this election as of the date of this filing.

## **Redemption**

At any time after October 31, 2014, we will have the option, on not less than 30 business days notice to all holders, to redeem all (but not less than all) of the outstanding shares of Series B for cash consideration equal to the liquidation preference plus all accumulated and unpaid dividends and all accrued interest at a rate of LIBOR plus 3% per annum. At the election of the holders of a majority of the Series B, the Series B may be converted into shares of common stock immediately prior to any such redemption by us at the conversion rate then in effect. At any time after October 31, 2015, the holders of Series B will have the option to require us to redeem out of funds legally available therefor, any or all of the outstanding shares of their Series B for cash consideration equal to the liquidation preference thereof plus any accumulated and unpaid dividends and all accrued interest thereon at a rate of LIBOR plus 3% per annum.

## **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 Series B will be entitled to receive a per share amount equal to the greater of (i) the stated value then in effect, plus any accumulated but unpaid dividends thereon through the date of liquidation, or (ii) the amount holders of Series B would be entitled to receive if their Series B were converted into Company common stock at the conversion rate then in effect immediately prior to such liquidation, and all declared accumulated but unpaid dividends on our Company common stock through the date of liquidation (the greater of (i) and (ii) is called the 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 June 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 were no changes in our critical accounting policies in the six months ended June 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

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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.

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### ***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 the 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.

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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 six months ended June 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 June 30, 2011, the fair value of marketable securities was \$15.4 million. Assuming a 10% increase or decrease in the fair value of marketable securities at June 30, 2011, our net income would have changed by \$1.3 million and our total comprehensive income would have changed by \$1.5 million for the three and six months ended June 30, 2011.

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

At June 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 an applicable margin that ranges from 1.25% to 3.00%. At June 30, 2011, the interest rate in effect for our Credit Facility was 2.50%. A hypothetical 300 basis point change in interest rates for the three and six months ended June 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.

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***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 provide reasonable ranges of potential losses. 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 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.

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| <b>Period</b>      | <b>Total number of shares purchased</b> | <b>Average price paid per share (1)</b> | <b>Total number of shares purchased as part of publicly announced plans or programs (2)</b> | <b>Maximum number of shares that may yet be purchased under the plans or programs (2)</b> |
|--------------------|---|---|---|---|
| April 1 - 30, 2011 |   |   |   | 280,000   |
| May 1 - 31, 2011   |   |   |   | 280,000   |
| June 1 - 30, 2011  | 35,000                                  | \$ 57.17                                | 35,000  | 245,000   |

(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**

| Exhibit Number | Description  |
|----------------|--|
| 10.28          | Amendment No. 1, dated June 19, 2011, to the Rights Agreement, dated as of December 29, 2008, between Virtus Investment Partners, Inc. and Mellon Investor Services LLC (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K, filed June 19, 2011) |
| 10.29          | Amendment No. 2, dated June 21, 2011, to the Rights Agreement, dated as of December 29, 2008, between Virtus Investment Partners, Inc. and Mellon Investor Services LLC  |
| 10.30          | Form of Performance Share Unit Award Agreement   |
| 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 June 30, 2011 and December 31, 2010, (ii) Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2011 and 2010, (iii) Condensed Consolidated Statements of Cash Flows for the six months ended June 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 part of any registration statement or other document files under 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)

August 5, 2011

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