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

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

FORM 10-Q

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from to

Commission File Number: 001-10994

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

Delaware (State or other jurisdiction of incorporation or organization)	95-4191764 (I.R.S. Employer Identification No.)

100 Pearl St., 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 x NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x 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	x	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 x

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

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

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

($ in thousands except per share data)	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Shares	Treasury Stock Amount	Total Attributed To Stockholders	Non-controlling Interests	Total Equity	Red Nor con Inte
Balances at December 31, 2013	9,105,521	$95	$1,135,644	$(605,221)	$(150)	350,000	$(37,438)	$492,930	$(62)	$492,868	$42
Net income (loss)	—	—	—	78,821	—	—	—	78,821	(84)	78,737	(18
Net unrealized gain on securities available-for-sale	—	—	—	—	90	—	—	90	—	90	—
Foreign currency translation adjustments	—	—	—	—	(80)	—	—	(80)	—	(80)	—
Activity of noncontrolling interests, net	—	—	—	—	—	—	—	—	—	—	(19,
Cash dividends declared ($0.90 per common share)	—	—	(8,333)	—	—	—	—	(8,333)		(8,333)	—
Repurchases of common shares	(136,874)	—	—	—	—	136,874	(26,257)	(26,257)	—	(26,257)	—
Issuance of common shares related to employee stock transactions	90,731	—	1,224	—	—	—	—	1,224	—	1,224	—
Taxes paid on stock-based compensation	—	—	(9,512)	—	—	—	—	(9,512)	—	(9,512)	—
Stock-based compensation	—	—	6,604	—	—	—	—	6,604	—	6,604	—
Excess tax benefits from stock-based compensation	—	—	25,089	—	—	—	—	25,089	—	25,089	—
Balances at September 30, 2014	9,059,378	$95	$1,150,716	$(526,400)	$(140)	486,874	$(63,695)	$560,576	$(146)	$560,430	$22
Balances at December 31, 2014	8,975,833	$96	$1,148,908	$(507,521)	$(242)	575,441	$(77,699)	$563,542	$(190)	$563,352	$23
Net income (loss)	—	—	—	28,470	—	—	—	28,470	(106)	28,364	(3,3
	—	—	—	—	(389)	—	—	(389)	—	(389)	—

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

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

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

1. Organization and Business

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

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

2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

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

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

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

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

New Accounting Standards

In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2015-03, Simplifying the Presentation of Debt Issuance Costs ("ASU2015-3"), which changes the presentation of debt issuance costs in the balance sheet. The new guidance requires that debt issuance costs be presented as a deduction from the carrying amount of the related debt rather than being presented as an asset. Amortization of debt issuance costs will continue to be reported as interest expense. In August 2015, the FASB issued ASU 2015-15 to amend ASU 2015-03 to address line-of-credit agreements. ASU 2015-15 allows entities to present debt issuance costs related to line-of-credit agreements as an asset and amortize deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any

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

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

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

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

3. Intangible Assets, Net

Intangible assets, net are summarized as follows:

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

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Activity in intangible assets, net is as follows:

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

4. Investments

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

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

Marketable Securities

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

September 30, 2015

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

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December 31, 2014

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

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

5. Fair Value Measurements

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

September 30, 2015

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

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December 31, 2014

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

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

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

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

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

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

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

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

6. Equity Transactions

During the nine months ended September 30, 2015 and 2014, the Company repurchased 368,468 and 136,874 common shares, respectively, at a weighted average price of $122.09 and $191.79 per share, respectively, plus transaction costs for a total cost of approximately $45.0 million and $26.3 million, respectively. The Company has repurchased a total of 943,909 shares of common stock at a weighted average price of $129.95 per share plus transaction costs for a total cost of $122.7 million under its share repurchase program. At September 30, 2015, there were 256,091 shares of common stock available to repurchase under the Company's current share repurchase program.

The Board of Directors declared cash dividends of $0.45 per share in each of the first three quarters of 2015 and the second and third quarters of 2014. Total dividends declared were $12.1 million and $8.3 million for the nine months ended September 30, 2015 and 2014, respectively. At September 30, 2015, dividends payable of $4.3 million represented the third quarter dividend to be paid on November 13, 2015 to all shareholders of record on October 30, 2015.

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7. Accumulated Other Comprehensive Income (Loss)

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

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

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

8. Stock-based Compensation

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

Restricted Stock Units

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

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

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

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

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

Stock Options

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

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

9. Earnings per Share

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

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The computation of basic and diluted EPS is as follows:

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

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

10. Business Combination

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

11. Income Taxes

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

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

12. Commitments and Contingencies

Legal Matters

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

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

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

Regulatory Matter

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

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

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

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

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

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

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

13. Consolidated Sponsored Investment Products

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

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

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

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

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Fair Value Measurements

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

As of September 30, 2015

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

As of December 31, 2014

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

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

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

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

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

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

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

Derivatives

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

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

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

(a) Represents cost of holdings as of the end of the period.
(b) Represents aggregate premiums received for the period.
(c) Represents cost at trade date for holdings as of the end of the period.
(d) Represents value of trade date payable for holdings as of the end of the period.
(e) Represents value at settlement date receivable for holdings as of the end of the period.
(f) Includes credit default, total return, inflation and variance swaps. Represents notional value of holdings as of the end of the period.

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

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

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

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

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

Short Sales

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

Borrowings

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

14. Consolidated Investment Product

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

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

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

Fair Value Measurements of Consolidated Investment Product

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

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

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

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

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

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

Debt of Consolidated Investment Product

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

15. Consolidation

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

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

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As of September 30, 2015

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

As of December 31, 2014

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

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

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

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For the Three Months Ended September 30, 2015

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

For the Three Months Ended September 30, 2014

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

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For the Nine Months Ended September 30, 2015

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

For the Nine Months Ended September 30, 2014

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

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

16. Subsequent Event

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

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

Cautionary Statement Regarding Forward Looking Statements

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

We can give no assurance that such expectations or forward-looking statements will prove to be correct. Actual results may differ materially. We do not undertake or plan to update or revise any such forward-looking statements to reflect actual results, changes in plans, assumptions, estimates or projections, or other circumstances occurring after the date of this Quarterly Report on Form 10-Q, even if such results, changes or circumstances make it clear that any forward-looking information will not be realized. If there are any future public statements or disclosures by us which modify or impact any of the forward-looking statements contained in or accompanying this Quarterly Report on Form 10-Q, such statements or disclosures will be deemed to modify or supersede such statements in this Quarterly Report.

Our business and our forward-looking statements involve substantial known and unknown risks and uncertainties, including those discussed under “Risk Factors,” and “Management's Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2014, and “Management's Discussion and Analysis of Financial Condition and Results of Operations” in this Quarterly Report on Form 10-Q, as well as the following risks and uncertainties: (a) any reduction in our assets under management, including due to market conditions, investment performance and client withdrawals; (b) the withdrawal, renegotiation or termination of our investment advisory agreements on short notice; (c) damage to our reputation; (d) failure to comply with agreements that have established investment guidelines or other contractual requirements; (e) our inability to attract and retain key personnel; (f) the competition we face in our business, including competition related to investment products and fees; (g) adverse regulatory and legal developments; (h) limitations on our deferred tax assets; (i) adverse developments with respect to, or changes in our relationships with, unaffiliated subadvisers; (j) changes in key distribution relationships; (k) interruptions in service or failure to provide service by third-party service providers for services critical to our business; (l) volatility associated with the concentrated ownership of our common stock; (m) civil litigation and government investigations or proceedings; (n) the significant portion of our assets invested in marketable securities that are primarily comprised of our seed capital program; (o) our inability to make intended quarterly distributions; (p) lack of availability of required and necessary capital on satisfactory terms; (q) corporate governance provisions that may make an acquisition of us more difficult; and (r) liabilities and losses not covered by our insurance policies, along with certain other risks and uncertainties described in our 2014 Annual Report on Form 10-K or in any of our filings with the Securities and Exchange Commission (“SEC”). Any occurrence of, or any material adverse change in, one or more risk factors or risks and uncertainties referred to in this Quarterly Report or included in our 2014 Annual Report on Form 10-K or our other periodic reports filed with the SEC could materially and adversely affect our operations, financial results, cash flows, prospects and liquidity.

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

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Overview

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

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

We distribute our open-end mutual funds through financial intermediaries. We have broad access in the retail market, with distribution partners that include national and regional broker-dealers, independent broker-dealers and independent financial advisory firms. In many of these firms, we have a number of products that are on firms' preferred "recommended" lists and on fee-based advisory programs. Our sales efforts are supported by regional sales professionals, a national account relationship group and separate teams for the retirement and insurance markets.

Our separately managed accounts are distributed through financial intermediaries and directly by teams at our affiliated managers. Our institutional distribution strategy is an affiliate-centric and coordinated model. Through relationships with consultants, our affiliates target key market segments, including foundations and endowments, corporate, public and private pension plans and unaffiliated mutual funds.

Financial Highlights

- Net loss per diluted share was ($0.07) in the third quarter of 2015 compared to earnings per share of $4.02 in the third quarter of 2014. Third quarter 2015 results include ($1.89) per share of unrealized mark to market adjustments.
- Total sales were $2.5 billion in the third quarter of 2015 compared to $3.5 billion in the third quarter of 2014. Net flows were ($1.6) billion in the third quarter of 2015 compared to $0.5 billion in the third quarter of 2014.
- Assets under management were $47.9 billion at September 30, 2015 compared to $59.6 billion at September 30, 2014 excluding money market assets.

Assets Under Management

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

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

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Operating Results

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

Assets Under Management by Product

The following table summarizes our assets under management by product:

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

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

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

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

Asset Flows by Product

The following table summarizes our asset flows by product:

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

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

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

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

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

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