VIRTUS INVESTMENT PARTNERS, INC.
Form 10-K/A
October 27, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 2)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2013

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 1-10994

VIRTUS INVESTMENT PARTNERS, INC.

(Exact name of registrant as specified in its charter)

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

100 Pearl St., Hartford, CT 06103

(Address of principal executive offices)

Registrant s telephone number, including area code

(800) 248-7971

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value (including attached Preferred Share Purchase Rights)	**The NASDAQ Stock Market LLC**

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. x Yes ¨ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. ¨ Yes x No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 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 Act). ¨ Yes x No

The aggregate market value of the registrant s voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold (based on the closing share price as quoted on the NASDAQ Global Market) as of the last business day of the registrant s most recently completed second fiscal quarter was $1,037,364,814. For purposes of this calculation, shares of common stock held or controlled by executive officers and directors of the registrant have been treated as shares held by affiliates.

There were 9,105,521 shares of the registrant s common stock outstanding on February 13, 2014.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s Proxy Statement which will be filed with the SEC in connection with the 2014 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

Explanatory Note

Virtus Investment Partners, Inc. (the Company) is filing this Annual Report on Form 10-K/A, Amendment No. 2, for the year ended December 31, 2013 (the Annual Report on Form 10-K/A) to amend the Company s Annual Report on Form 10-K (the Original Report) for the fiscal year ended December 31, 2013, as filed with the Securities and Exchange Commission (SEC) on February 24, 2014 and amended by Amendment No. 1 on February 26, 2014. The purpose of this Annual Report on Form 10-K/A is to amend:

- the Company s disclosure in Part II, Item 9A Controls and Procedures, to change the conclusions of our principal executive officer and principal financial officer regarding the effectiveness of the Company s internal control over financial reporting and disclosure controls and procedures as of December 31, 2013 in light of management s conclusion that the Company s internal control over financial reporting contained a material weakness at December 31, 2013; and

- the Report of the Independent Registered Public Accounting Firm, in Part II, Item 8, Financial Statements and Supplementary Data, and Item 15, Exhibits, Financial Statement Schedules, regarding the effectiveness of the Company s internal control over financial reporting, in light of our Independent Registered Public Accounting Firm s conclusion that the Company s internal control over financial reporting contained a material weakness at December 31, 2013.

The remainder of the Original Report, including the Financial Statements and Supplementary Financial Data, remains unchanged except for the inclusion of new certifications required by Rule 13a-14 under the Securities Exchange Act of 1934, as amended, and new consents of the Independent Registered Public Accounting Firm, in each case as required in connection with the filing of this Annual Report on Form 10-K/A. Notwithstanding the existence of this material weakness, management has concluded that the Company s consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2013, as initially filed on February 24, 2014, or in its Quarterly Reports on Form 10-Q for the quarters ended March 31, 2014 or June 30, 2014, as initially filed on May 7, 2014 and July 29, 2014, respectively are fairly stated in all material respects in accordance with generally accepted accounting principles in the United States of America.

We have made no attempt in this Annual Report on Form 10-K/A to modify or update the disclosures presented in the Original Report other than as noted in the previous paragraphs. Except as noted above, this Annual Report on Form 10-K/A does not reflect events occurring after the filing of the Original Report. Accordingly, this Annual Report on Form 10-K/A should be read in conjunction with the Original Report, including any amendments thereto, and the Company s other filings with the SEC subsequent to the filing of the Original Report, including any amendments thereto.

SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K/A contains statements that are, or may be considered to be, forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995, as amended, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements that are not historical facts, including statements about our beliefs or expectations, are forward-looking statements. These statements may be identified by such forward-looking terminology as expect, estimate, intend, believe, anticipate, may, will, should, could, continue, project, opportunity, predict, would, potential, future likely, target or similar statements or variations of such terms.

Our forward-looking statements are based on a series of expectations, assumptions and projections about our Company and the markets in which we operate, and are not guarantees of future results or performance, and involve substantial risks and uncertainty, including assumptions and projections concerning our assets under management, net cash inflows and outflows, operating cash flows and future credit facilities, for all future periods. All of our forward-looking statements contained in this Annual Report on Form 10-K/A are as of the date of this Annual Report on Form 10-K/A 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 Annual Report on Form 10-K/A, 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 Annual Report on Form 10-K/A, such statements or disclosures will be deemed to modify or supersede such statements in this Annual Report on Form 10-K/A.

Our business and our forward-looking statements involve substantial known and unknown risks and uncertainties, including those discussed under Risk Factors, and Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC on February 24, 2014 (the Annual Report on Form 10-K) as well as the following risks and uncertainties: (a) any reduction in our assets under management; (b) damage to our reputation; (c) our inability to attract and retain key personnel; (d) the competition we face in our business; (e) adverse regulatory and legal developments; (f) limitations on our deferred tax assets; (g) changes in key distribution or unaffiliated subadvisory relationships; (h) interruptions in service or failure to provide service by third-party service providers; (i) impairment of our goodwill or intangible assets; (j) lack of availability of required and necessary capital on satisfactory terms; (k) liabilities and losses not covered by our insurance policies; and (l) certain other risks and uncertainties described in our Annual Report on Form 10-K or in any of our filings with SEC. Any occurrence of, or any material adverse change in, one or more risk factors or risks and uncertainties referred to in this Annual Report on Form 10-K/A 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.

Item 8. Financial Statements and Supplementary Data.

The audited Consolidated Financial Statements, including the Report of Independent Registered Public Accounting Firm and the required supplementary quarterly information, required by this item are presented under Item 15 beginning on page F-1.

Item 9A. Controls and Procedures.
Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported within the specified time periods, and that such information is accumulated and communicated to management, including the Company s 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) and 15d-15(e) of the Exchange Act) as of December 31, 2013, the end of the period covered by this Annual Report. In connection with the filing of the Form 10-K on February 24, 2014, the Company s Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective as of the end of the period covered by this Annual Report. Subsequent to that evaluation, the Company s Chief Executive Officer and Chief Financial Officer have concluded that, because of a material weakness in internal control over financial reporting related to management s assessment of the primary beneficiary criteria related to its variable interest entities as further described below, the Company s disclosure controls and procedures were not effective as of the end of the period covered by this Annual Report. Notwithstanding the material weakness described below, management has concluded that the Company s consolidated financial statements for the periods covered by and included in this Annual Report on Form 10-K/A are fairly stated in all material respects in accordance with generally accepted accounting principles in the United States of America for each of the periods presented herein.

Management s Report on Internal Control over Financial Reporting

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policy or procedures may deteriorate.

In connection with the filing of the Form 10-K on February 24, 2014, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2013 based upon the Internal Control-Integrated Framework (1992 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management, including our Chief Executive Officer and Chief Financial Officer, concluded that our internal control over financial reporting was effective as of December 31, 2013.

Subsequent to the evaluation made in connection with the filing of the Form 10-K on February 24, 2014, our management reassessed the effectiveness of the Company s internal control over financial reporting. Based on this evaluation, management, including our Chief Executive Officer and Chief Financial Officer, identified a material weakness related to internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company s annual or interim financial statements will not be prevented or detected on a timely basis. In particular, management identified a material weakness related to its assessment of the primary beneficiary criteria for its variable interest entities. The Company failed to design controls upon the adoption of ASC 810-10, as amended by ASU 2009-17, to assess whether it has the potential to receive collateral management fees that could be significant and failed to design appropriate controls over the requirement to continuously reassess its variable interest entities at appropriate levels of precision. As a result, the Company s analysis of whether it has the potential to receive collateral management fees that could be significant was not at the appropriate levels of precision to determine whether to consolidate certain variable interest entities. This material weakness could result in a failure to consolidate certain variable interest entities that could result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

Based on its assessment and as a result of the material weakness described above, management has concluded that the Company s internal control over financial reporting was not effective as of December 31, 2013. However, the Company has concluded that the existence of this material weakness did not result in a material misstatement of the Company s financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2013, as initially filed on February 24, 2014, or in its Quarterly Reports on Form 10-Q for the quarters ended March 31, 2014 or June 30, 2014, as initially filed on May 7, 2014 and July 29, 2014, respectively.

The effectiveness of our internal control over financial reporting as of December 31, 2013 has been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm, as stated in their report which is included in Item 15 of this Annual Report.

Management s Remediation Measure

To address the material weakness described above, new and enhanced controls have been designed and implemented to ensure that the primary beneficiary assessment for variable interest entities is assessed at the appropriate level of precision and that the in-house accounting personnel have training to ensure they have the relevant expertise related to the consolidation of variable interest entities.

We believe the actions described above will be sufficient to remediate the identified material weakness and strengthen our internal control over financial reporting. However, the new and enhanced controls have not operated for a sufficient amount of time to conclude that the material weakness has been remediated. We will continue to monitor the effectiveness of these controls and will make any further changes management determines appropriate.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the quarter ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a)(1) *Financial Statements:* The following Report of Independent Registered Public Accounting Firm and Consolidated Financial Statements of Virtus Investment Partners, Inc. are included in this Annual Report:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2013 and 2012

Consolidated Statements of Operations for the Years Ended December 31, 2013, 2012 and 2011

Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2013, 2012 and 2011

Consolidated Statements of Changes in Stockholders Equity for the Years Ended December 31, 2013, 2012 and 2011

Consolidated Statements of Cash Flows for the Years Ended December 31, 2013, 2012 and 2011

Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedules:

All financial statement schedules have been omitted because the required information is either presented in the consolidated financial statements or the notes thereto or is not applicable or required.

(a)(3) ***Exhibits:***

The following exhibits are filed herewith or incorporated herein by reference:

Exhibit Number	Exhibit Description
(2)	*Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession*
2.1	Separation Agreement, Plan of Reorganization and Distribution by and between The Phoenix Companies, Inc. and the Registrant, dated as of December 18, 2008 (incorporated by reference to Exhibit 2.1 of the Registrant s Amendment No. 4 to Form 10, filed December 19, 2008).
(3)	*Articles of Incorporation and Bylaws*
3.1	Amended and Restated Certificate of Incorporation of the Registrant, dated December 18, 2008 (incorporated by reference to Exhibit 3.1 of the Registrant s Amendment No. 4 to Form 10, filed December 19, 2008).
3.2	Amended and Restated Bylaws of the Registrant, as adopted on January 28, 2010 (incorporated by reference to Exhibit 3.1 of the Registrant s Current Report on Form 8-K, filed February 2, 2010).
3.3	Certificate of Designations of Series A Non-Voting Convertible Preferred Stock and Series B Voting Convertible Preferred Stock of the Registrant, dated October 31, 2008 (incorporated by reference to Exhibit 4.2 of the Registrant s Amendment No. 2 to Form 10, filed November 14, 2008).
3.4	Certificate of Amendment of the Certificate of Designations of Series A Non-Voting Convertible Preferred Stock and Series B Voting Convertible Preferred Stock of the Registrant (incorporated by reference to Exhibit 3.1 of the Registrant s Quarterly Report on Form 10-Q, filed August 13, 2009).
3.5	Certificate of Designations of Series C Junior Participating Preferred Stock of the Registrant, dated December 29, 2008 (incorporated by reference to Exhibit 3.1 of the Registrant s Current Report on Form 8-K, filed January 2, 2009).
(4)	*Instruments Defining the Rights of Security Holders, Including Indentures*
4.1	Note in favor of The Bank of New York Mellon as Lender, dated September 1, 2009 (incorporated by reference to Exhibit 4.1 of the Registrant s Current Report on Form 8-K, filed September 4, 2009).
4.2	Note in favor of PNC Bank, National Association as Lender, dated September 1, 2009 (incorporated by reference to Exhibit 4.2 of the Registrant s Current Report on Form 8-K, filed September 4, 2009).
(10)	*Material Contracts*
10.1	Transition Services Agreement by and between The Phoenix Companies, Inc. and the Registrant, dated as of December 18, 2008 (incorporated by reference to Exhibit 10.1 of the Registrant s Amendment No. 4 to Form 10, filed December 19, 2008).
10.2	Tax Separation Agreement by and between The Phoenix Companies, Inc. and the Registrant, dated December 18, 2008 (incorporated by reference to Exhibit 10.2 of the Registrant s Amendment No. 4 to Form 10, filed December 19, 2008).
10.3	Amendment to Tax Separation Agreement, dated April 8, 2009, by and between The Phoenix Companies, Inc. and the Registrant, dated as of December 18, 2008 (incorporated by reference to Exhibit 10.15 of the Registrant s Annual Report on Form 10-K, filed April 10, 2009).
10.4	Employee Matters Agreement by and between The Phoenix Companies, Inc. and the Registrant, dated December 18, 2008 (incorporated by reference to Exhibit 10.3 of the Registrant s Amendment No. 4 to Form 10, filed December 19, 2008).

Exhibit Number	**Exhibit Description**
*10.5	Change in Control Agreement between George R. Aylward and the Registrant, effective as of December 31, 2008 (incorporated by reference to Exhibit 10.4 of the Registrant s Amendment No. 4 to Form 10, filed December 19, 2008).
*10.6	Virtus Investment Partners, Inc. Omnibus Incentive and Equity Plan, effective as of December 31, 2008 (incorporated by reference to Exhibit 10.5 of the Registrant s Amendment No. 4 to Form 10, filed December 19, 2008).
*10.7	First Amendment to the Virtus Investment Partners, Inc. Omnibus Incentive and Equity Plan, effective as of February 9, 2012 (incorporated by reference to Exhibit 10.7 of the Registrant s Annual Report on Form 10-K, filed February 24, 2014).
*10.8	Virtus Investment Partners, Inc. Non-Qualified Excess Investment Plan, effective as of November 1, 2008 (incorporated by reference to Exhibit 10.6 of the Registrant s Amendment No. 2 to Form 10, filed November 14, 2008).
*10.9	First Amendment to the Virtus Investment Partners, Inc. Non-Qualified Excess Investment Plan, effective as of February 1, 2010 (incorporated by reference to Exhibit 10.1 of the Registrant s Quarterly Report on Form 10-Q, filed May 4, 2010).
*10.10	Virtus Investment Partners, Inc. Amended and Restated Executive Severance Allowance Plan, effective as of February 2, 2009 (incorporated by reference to Exhibit 10.1 of the Registrant s Current Report on Form 8-K, filed February 4, 2009).
10.11	Investment and Contribution Agreement by and among Phoenix Investment Management Company, the Registrant, Harris Bankcorp, Inc. and The Phoenix Companies, Inc., dated as of October 30, 2008 (incorporated by reference to Exhibit 10.8 of the Registrant s Amendment No. 2 to Form 10, filed November 14, 2008).
10.12	Annex A to the Investment and Contribution Agreement by and among Phoenix Investment Management Company, the Registrant, Harris Bankcorp, Inc. and The Phoenix Companies, Inc., dated October 30, 2008 (incorporated by reference to Exhibit 10.10 of the Registrant s Annual Report, filed March 1, 2011).
10.13	Transaction Agreement by and among Harris Investment Management, Inc., Phoenix Investment Counsel, Inc., Harris Financial Corp. and Phoenix Investment Partners, LTD., dated as of March 28, 2006 (incorporated by reference Exhibit 6.01 of the Schedule 13D, filed January 12, 2009 by Bank of Montreal, Harris Financial Corp. and Harris Bankcorp, Inc.).
10.14	Strategic Partnership Agreement by and between Harris Investment Management, Inc. and Phoenix Investment Counsel, Inc., dated as of March 28, 2006 (incorporated by reference to Exhibit 6.02 of the Schedule 13D, filed January 12, 2009 by Bank of Montreal, Harris Financial Corp. and Harris Bankcorp, Inc.).
*10.15	Form of Non-Qualified Stock Option Agreement under the Virtus Investment Partners, Inc. Omnibus Incentive and Equity Plan (incorporated by reference to Exhibit 10.4 of the Registrant s Quarterly Report on Form 10-Q, filed May 13, 2009).
*10.16	Form of Restricted Stock Units Agreement under the Virtus Investment Partners, Inc. Omnibus Incentive and Equity Plan (incorporated by reference to Exhibit 10.5 of the Registrant s Quarterly Report on Form 10-Q, filed May 13, 2009).
*10.17	Form of Performance Share Units Agreement under the Virtus Investment Partners, Inc. Omnibus Incentive and Equity Plan (incorporated by reference to Exhibit 10.30 of the Registrant s Quarterly Report on Form 10-Q, filed August 5, 2011).

Exhibit Number	Exhibit Description
10.18	Amended and Restated Credit Agreement, dated as of September 10, 2012 among the Registrant, as Borrower, the lenders party thereto, PNC Bank, National Association, as Syndication Agent, and The Bank of New York Mellon, as Administrative Agent, as Swingline Lender and as Issuing Bank (the Credit Agreement) (incorporated by reference to Exhibit 10.1 of the Registrant s Quarterly Report on Form 10-Q, filed November 7, 2012).
10.19	Amendment No. 1, dated as of July 2, 2013, to the Credit Agreement, dated as of September 10, 2012, among the Registrant, as Borrower, the lenders party thereto, PNC Bank, National Association, as Syndication Agent, and The Bank of New York Mellon, as Administrative Agent, as Swingline Lender and as Issuing Bank (incorporated by reference to Exhibit 10.1 of the Registrant s Quarterly Report on Form 10-Q, filed August 2, 2013).
10.20	Amendment No. 2, dated as of September 18, 2013, to the Credit Agreement, dated as of September 10, 2012, among the Registrant, as Borrower, the lenders party thereto, PNC Bank, National Association, as Syndication Agent, and The Bank of New York Mellon, as Administrative Agent, as Swingline Lender and as Issuing Bank (incorporated by reference to Exhibit 10.1 of the Registrant s Quarterly Report on Form 10-Q, filed November 4, 2013).
10.21	Guarantee Agreement among the Registrant, each of the subsidiary guarantors party thereto and The Bank of New York Mellon, as Administrative Agent, dated as of September 1, 2009 (incorporated by reference to Exhibit 10.24 of the Registrant s Annual Report on Form 10-K, filed March 1, 2011).
10.22	Reaffirmation of Guarantee among the Registrant as Borrower, each of the subsidiary guarantors party thereto and the Bank of New York Mellon, as Administrative Agent, as Swingline Lender and as Issuing Bank under the Credit Agreement (incorporated by reference to Exhibit 10.2 of the Registrant s Quarterly Report on Form 10-Q, filed November 7, 2012).
10.23	Security Agreement among the Registrant, each of the other grantors party thereto and The Bank of New York Mellon, as Administrative Agent, dated as of September 1, 2009 (incorporated by reference to Exhibit 10.25 of the Registrant s Annual Report on Form 10-K, filed March 1, 2011).
10.24	Amendment No. 1, dated as of September 10, 2012, to the Security Agreement, dated as of September 1, 2009, among the Registrant, as Borrower, each of the subsidiary guarantors party thereto, and the Bank of New York Mellon, as Administrative Agent under the Credit Agreement (incorporated by reference to Exhibit 10.3 of the Registrant s Quarterly Report on Form 10-Q, filed November 7, 2012).
*10.25	Form of Indemnity Agreement (incorporated by reference to Exhibit 10.4 to the Registrant s Quarterly Report on Form 10-Q, filed November 4, 2009).
*10.26	Offer Letter from the Registrant to Jeffrey T. Cerutti dated May 18, 2010 (incorporated by reference to Exhibit 10.27 of the Registrant s Annual Report on Form 10-K, filed March 1, 2011).
10.27	Conversion and Voting Agreement, dated as of October 27, 2011, between BMO, Inc. (f/k/a Harris Bankcorp, Inc.) and the Registrant (incorporated by reference to Exhibit 10.1 of the Registrant s Current Report on Form 8-K, filed November 2, 2011).
*10.28	Offer Letter from the Registrant to Mark S. Flynn dated December 9, 2010 (incorporated by reference to Exhibit 10.31 of the Registrant s Annual Report on Form 10-K, filed March 1, 2012).
10.29	Amendment No. 3 to Amended and Restated Credit Agreement dated December 4, 2013 among the Registrant, as Borrower, the lenders party thereto, PNC Bank, National Association, as Syndication Agent, and The Bank of New York Mellon, as Administrative Agent, as Swingline Lender and as Issuing Bank (incorporated by reference to Exhibit 10.29 of the Registrant s Annual Report on Form 10-K, filed February 24, 2014).

Exhibit Number	Exhibit Description
10.30	Amendment No. 2, dated as of December 4, 2013, to the Security Agreement, dated as of September 1, 2009, among the Registrant, as Borrower, each of the subsidiary guarantors party thereto, and the Bank of New York Mellon, as Administrative Agent under the Credit Agreement (incorporated by reference to Exhibit 10.30 of the Registrant s Annual Report on Form 10-K, filed February 24, 2014).
(21)	*Subsidiaries of the Registrant*
21.1	Virtus Investment Partners, Inc., Subsidiaries List. (incorporated by reference to Exhibit 21.1 of the Registrant s Annual Report on Form 10-K, filed February 24, 2014).
(23)	*Consents of Experts and Counsel*
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Certifications of Registrant s Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certifications of Registrant s Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications of Registrant s Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following information formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2013 and December 31, 2012, (ii) Consolidated Statements of Operations for the years ended December 31, 2013, 2012 and 2011, (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2013, 2012 and 2011, (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011, (v) Consolidated Statements of Changes in Stockholders Equity for the years ended December 31, 2013, 2012 and 2011 and (iv) Notes to Consolidated Financial Statements.

* Management contract, compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: October 27, 2014

Virtus Investment Partners, Inc.

By: /s/ MICHAEL A. ANGERTHAL

Michael A. Angerthal
Executive Vice President

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Virtus Investment Partners, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income, changes in stockholders equity and cash flows present fairly, in all material respects, the financial position of Virtus Investment Partners, Inc. and its subsidiaries at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. Management and we previously concluded that the Company maintained effective internal control over financial reporting as of December 31, 2013. However, management has subsequently determined that a material weakness in internal control over financial reporting related to management s assessment of the primary beneficiary criteria for its variable interest entities that existed as of that date. The Company failed to design controls upon the adoption of ASC 810-10, as amended by ASU 2009-17, to assess whether it has the potential to receive collateral management fees that could be significant and failed to design appropriate controls over the requirement to continuously reassess its variable interest entities at appropriate levels of precision. As a result, the Company s analysis of whether it has the potential to receive collateral manager fees that could be significant was not at the appropriate levels of precision to determine whether to consolidate certain variable interest entities. Accordingly, Management s Report on Internal Control over Financial Reporting appearing under Item 9A has been restated and our present opinion on internal control over financial reporting, as presented herein, is different from that expressed in our previous report. Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) because a material weakness in internal control over financial reporting related to management s assessment of the primary beneficiary criteria related to its variable interest entities existed as of that date. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness referred to above is described in Management s Report on Internal Control over Financial Reporting appearing under Item 9A. We considered this material weakness in determining the nature, timing, and extent of audit tests applied in our audit of the 2013 consolidated financial statements, and our opinion regarding the effectiveness of the Company s internal control over financial reporting does not affect our opinion on those consolidated financial statements. The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in management s report referred to above. Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Hartford, Connecticut

February 24, 2014, except with respect to our opinion on the effectiveness of internal control over financial reporting and the matter described in the penultimate paragraph of Management s Report on Internal Control over Financial Reporting, as to which the date is October 27, 2014

Virtus Investment Partners, Inc.

Consolidated Balance Sheets

($ in thousands, except share data)	December 31, 2013	December 31, 2012
Assets:		
Cash and cash equivalents	$ 271,014	$ 63,432
Cash of consolidated sponsored investment products	531	14
Investments	37,258	18,433
Investments of consolidated sponsored investment products	139,054	43,227
Accounts receivable, net	50,166	37,328
Furniture, equipment, and leasehold improvements, net	7,219	7,788
Intangible assets, net	44,633	48,711
Goodwill	5,260	5,260
Deferred taxes, net	64,500	96,923
Other assets	15,724	10,950
Other assets of consolidated sponsored investment products	9,595	683
Total assets	$ 644,954	$ 332,749
Liabilities and Equity		
Liabilities:		
Accrued compensation and benefits	$ 53,140	$ 41,252
Accounts payable and accrued liabilities	29,912	19,871
Debt		15,000
Other liabilities	18,413	8,615
Other liabilities of consolidated sponsored investment products	8,435	377
Total liabilities	109,900	85,115
Commitments and Contingencies (Note 9)		
Redeemable noncontrolling interests	42,186	3,163
Equity:		
Equity attributable to stockholders:		
Common stock, $0.01 par value, 1,000,000,000 shares authorized; 9,455,521 shares issued and 9,105,521 shares outstanding at December 31, 2013 and 8,071,674 shares issued and 7,826,674 shares outstanding at December 31, 2012	95	81
Additional paid-in capital	1,135,644	942,825
Accumulated deficit	(605,221)	(680,411)
Accumulated other comprehensive loss	(150)	(287)
Treasury stock, at cost, 350,000 and 245,000 shares at December 31, 2013 and December 31, 2012, respectively	(37,438)	(17,734)
Total equity attributable to stockholders	492,930	244,474
Noncontrolling interest	(62)	(3)
Total equity	492,868	244,471
Total liabilities and equity	$ 644,954	$ 332,749

See Notes to Consolidated Financial Statements.

Virtus Investment Partners, Inc.

Consolidated Statements of Operations

($ in thousands, except per share data)	Years Ended December 31, 2013	2012	2011
Revenues			
Investment management fees	$ 260,557	$ 187,875	$ 135,063
Distribution and service fees	78,965	56,866	43,792
Administration and transfer agent fees	48,185	33,779	23,878
Other income and fees	1,508	1,566	1,919
Total revenues	389,215	280,086	204,652
Operating Expenses			
Employment expenses	131,768	105,571	92,543
Distribution and administration expenses	97,786	72,210	60,176
Other operating expenses	38,321	34,017	30,157
Other operating expenses of consolidated sponsored investment products	798	315	
Restructuring and severance	203	1,597	2,008
Depreciation expense	2,422	1,810	1,847
Amortization expense	4,413	4,121	4,018
Total operating expenses	275,711	219,641	190,749
Operating Income	113,504	60,445	13,903
Other Income (Expense)			
Realized and unrealized gain (loss) on investments, net	2,350	1,891	(256)
Realized and unrealized gain on investments of consolidated sponsored investment products, net	3,515	2,072	
Other income (expense), net	74	(38)	(194)
Total other income (expense), net	5,939	3,925	(450)
Interest Income (Expense)			
Interest expense	(782)	(854)	(782)
Interest and dividend income	664	710	321
Interest and dividend income of investments of consolidated sponsored investment products	2,583	577	
Total interest income (expense), net	2,465	433	(461)
Income Before Income Taxes	121,908	64,803	12,992
Income tax expense (benefit)	44,778	27,030	(132,428)
Net Income	77,130	37,773	145,420
Noncontrolling interests	(1,940)	(101)	
Preferred stockholder dividends			(9,482)
Allocation of earnings to preferred stockholders		(64)	(24,260)
Net Income Attributable to Common Stockholders	$ 75,190	$ 37,608	$ 111,678
Earnings per share Basic	$ 9.18	$ 4.87	$ 17.98
Earnings per share Diluted	$ 8.92	$ 4.66	$ 16.34

Weighted Average Shares Outstanding Basic (in thousands)	8,188	7,727	6,211
Weighted Average Shares Outstanding Diluted (in thousands)	8,433	8,073	6,834

See Notes to Consolidated Financial Statements.

Virtus Investment Partners, Inc.

Consolidated Statements of Comprehensive Income

	Years Ended December 31,		
	2013	**2012**	**2011**
($ in thousands)			
Net Income	$ 77,130	$ 37,773	$ 145,420
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment, net of tax of ($50) for the year ended December 31, 2013	81		
Unrealized gain (loss) on available-for-sale securities, net of tax of $223 and $81 for the years ended December 31, 2013 and 2012, respectively	56	(273)	294
Other comprehensive income (loss)	137	(273)	294
Comprehensive income	77,267	37,500	145,714
Comprehensive income attributable to noncontrolling interests	(1,940)	(101)	
Preferred stockholder dividends			(9,482)
Allocation of comprehensive income to preferred stockholders		(64)	(24,260)
Comprehensive income attributable to common stockholders	$ 75,327	$ 37,335	$ 111,972

See Notes to Consolidated Financial Statements.

Virtus Investment Partners, Inc.

Consolidated Statements of Changes in Stockholders Equity

	Common Stock				**Accumulated Other Comprehensive**	**Treasury Stock**					
($ in thousands)	**Shares**	**Par Value**	**Additional Paid-in Capital**	**Accumulated Deficit**	**(Loss) Income**	**Shares**	**Amount**	**Total Attributed To Shareholders**	**Non-controlling Interest**	**Total Equity**	**Redeemable Non-controlling Interest**
Balances at December 31, 2010	6,251,821	$ 63	$ 912,942	$ (863,503)	$ (308)	20,000	$ (924)	$ 48,270	$	$ 48,270	$
Net income				145,420				145,420		145,420	
Net unrealized gain on securities available-for-sale					294			294		294	
Preferred stockholder dividend			(9,482)					(9,482)		(9,482)	
Repurchase of common shares	(135,000)					135,000	(7,870)	(7,870)		(7,870)	
Issuance of common stock related to employee stock transactions	71,474		1,720					1,720		1,720	
Taxes paid on stock-based compensation			(720)					(720)		(720)	
Stock-based compensation			5,523					5,523		5,523	
Balances at December 31, 2011	6,188,295	63	909,983	(718,083)	(14)	155,000	(8,794)	183,155		183,155	
Net income (loss)				37,672				37,672	(3)	37,669	104
Net unrealized loss on securities available-for-sale					(273)			(273)		(273)	
Preferred stock conversion	1,349,300	14	35,203					35,217		35,217	
Activity of noncontrolling interests, net											3,059
Repurchase of common shares	(90,000)					90,000	(8,940)	(8,940)		(8,940)	
Issuance of common stock related to employee stock transactions	379,079	4	3,184					3,188		3,188	
Taxes paid on stock-based compensation			(11,951)					(11,951)		(11,951)	
Stock-based compensation			6,406					6,406		6,406	
Balances at December 31, 2012	7,826,674	81	942,825	(680,411)	(287)	245,000	(17,734)	244,474	(3)	244,471	3,163
Net income (loss)				75,190				75,190	(59)	75,131	1,999
Net unrealized gain on securities available-for-sale					56			56		56	
Foreign currency translation adjustment					81			81		81	

Activity of noncontrolling interests, net											37,024
Issuance of common stock, net	1,298,386	13	191,565					191,578		191,578	
Repurchase of common shares	(105,000)					105,000	(19,704)	(19,704)		(19,704)	
Issuance of common stock related to employee stock transactions	85,461	1	1,110					1,111		1,111	
Taxes paid on stock-based compensation			(7,513)					(7,513)		(7,513)	
Stock-based compensation			7,657					7,657		7,657	
Balances at December 31, 2013	9,105,521	$ 95	$ 1,135,644	$ (605,221)	$ (150)	350,000	$ (37,438)	$ 492,930	$ (62)	$ 492,868	$ 42,186

See Notes to Consolidated Financial Statements.

Virtus Investment Partners, Inc.

Consolidated Statements of Cash Flows

	Years Ended December 31,		
($ in thousands)	**2013**	**2012**	**2011**
Cash Flows from Operating Activities:			
Net income	$ 77,130	$ 37,773	$ 145,420
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense, intangible asset and other amortization	7,046	6,198	5,865
Stock-based compensation	7,960	6,927	5,625
Excess tax benefit from stock-based compensation	(478)	(89)	
Amortization of deferred commissions	14,453	10,715	8,874
Payments of deferred commissions	(18,912)	(10,868)	(11,392)
Equity in (earnings) losses of equity method investments, net of dividends	(161)		223
Realized and unrealized (gains) losses on trading securities	(2,350)	(1,891)	256
Realized and unrealized gains on investments of consolidated sponsored investment products	(3,515)	(2,072)	
(Purchase) sale of trading securities, net	(2,701)	2,025	(4,425)
Purchase of investments by consolidated sponsored investment products, net	(100,499)	(41,155)	
Deferred income taxes	32,596	26,689	(132,477)
Changes in operating assets and liabilities:			
Accounts receivable, net and other assets	(13,416)	(10,047)	(5,953)
Other assets of consolidated sponsored investment products	(6,043)	(683)	(945)
Accrued compensation and benefits, accounts payable, accrued liabilities and other liabilities	37,575	15,919	13,316
Other liabilities of consolidated sponsored investment products	152	377	(737)
Net cash provided by operating activities	28,837	39,818	23,650
Cash Flows from Investing Activities:			
Capital expenditures	(2,009)	(3,782)	(743)
Change in cash and cash equivalents of consolidated sponsored investment products due to deconsolidation	(662)		
Other acquisitions	(3,364)	(350)	(3,068)
Purchase of available-for-sale securities	(196)	(379)	(259)
Acquisitions of businesses		(656)	
Net cash used in investing activities	(6,231)	(5,167)	(4,070)
Cash Flows from Financing Activities:			
Contingent consideration paid for acquired investment management contracts	(630)	(665)	(789)
Preferred stock dividends paid			(10,186)
Repurchase of common shares	(19,704)	(8,940)	(7,870)
Proceeds from exercise of stock options	570	2,636	1,345
Payment of deferred financing costs	(26)	(700)	(41)
Taxes paid related to net share settlement of restricted stock units	(7,513)	(11,951)	(720)
Proceeds from issuance of common stock, net of issuance costs	191,771		
Excess tax benefit from stock-based compensation	478	89	
Repayment of debt	(15,000)		
Contributions of noncontrolling interests, net	35,547	3,059	
Net cash provided by (used in) financing activities	185,493	(16,472)	(18,261)
Net increase in cash and cash equivalents	208,099	18,179	1,319
Cash and cash equivalents, beginning of period	63,446	45,267	43,948

Cash and Cash Equivalents, end of period	$	271,545	$	63,446	$	45,267
Supplemental Cash Flow Information:						
Interest paid	$	393	$	415	$	362
Income taxes paid, net	$	1,697	$	74	$	427
Non-Cash Investing Activities:						
Purchase of investment management contracts	$		$	435	$	
Non-cash activity related to rabbi trust	$	(1,250)	$	(144)	$	(486)
Non-Cash Financing Activities:						
Satisfaction of accrued compensation through the issuance of RSU s	$	609	$	(58)	$	273
Increase to noncontrolling interest due to consolidation of sponsored investment products, net	$	1,477	$		$	
Preferred stock conversion	$		$	35,217	$	

See Notes to Consolidated Financial Statements.

Virtus Investment Partners, Inc.

Notes to Consolidated Financial Statements

1. Organization and Business

Virtus Investment Partners, Inc. (the Company, we, us, our or Virtus), a Delaware corporation, operates in the investment management indus through its wholly-owned subsidiaries.

The Company provides investment management and related services to individuals and institutions throughout the United States of America. The Company s retail investment management services are provided to individuals through products consisting of open-end mutual funds, closed-end funds, variable insurance funds and separately managed accounts. Separately managed accounts are offered through intermediary programs that are sponsored and distributed by unaffiliated broker-dealers, and individual direct managed account investment services that are provided by the Company. Institutional investment management services are provided primarily to corporations, multi-employer retirement funds, employee retirement systems, foundations and endowments.

2. Summary of Significant Accounting Policies

The Company s significant accounting policies, which have been consistently applied, are as follows:

Principles of Consolidation and Basis of Presentation

The Company s consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The consolidated financial statements include the accounts of the Company, its subsidiaries and sponsored investment products in which it has a controlling financial interest. The Company is generally considered to have a controlling financial interest when it owns a majority of the voting interest in an entity or otherwise has the power to govern the financial and operating policies of the subsidiary. See Note 20 for additional information related to the consolidation of sponsored investment products. Material intercompany accounts and transactions have been eliminated. The Company also evaluates for consolidation any variable interest entities (VIEs) in which the Company is the primary beneficiary. 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) the group of holders of the equity investment at risk lack certain characteristics of a controlling financial interest. The primary beneficiary is the entity that has the power to direct the activities that most significantly impact the VIE s economic performance and the obligation to absorb losses of or right to receive benefits from the VIE that could potentially be significant to the VIE. If the VIE qualifies for deferral in Accounting Standards Update (ASU) 2010-10 *Amendments to Statement 167 for Certain Investment Funds,* the primary beneficiary is the entity that has the obligation to absorb a majority of the expected losses or the right to receive the majority of the residual returns. The Company evaluates whether entities in which it has an interest are VIEs and whether the Company is the primary beneficiary of any VIEs identified in its analysis.

Effective December 31, 2013, the Company changed the presentation of its Consolidated Balance Sheets from a classified basis, which distinguishes between current and long-term assets and liabilities, to an unclassified basis, which has no such distinction. Management believes this presentation is more useful to readers of the consolidated financial statements as it provides improved disclosure of the Company s financial position by aggregating assets and liabilities of the same nature and reducing the presentation complexities resulting from the consolidation of sponsored investment products. This change is a presentation election made by management. There were no changes to the Consolidated Balance Sheets that impacted the Consolidated Statement of Operations. Amounts in the prior year s consolidated financial statements have been recast to conform to the current year s presentation.

Virtus Investment Partners, Inc.

Notes to Consolidated Financial Statements (Continued)

Noncontrolling Interest

Noncontrolling interests related to certain consolidated sponsored investment products are classified as redeemable noncontrolling interests because investors in these funds may request withdrawals at any time.

Use of Estimates

The preparation of the consolidated financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Management believes the estimates used in preparing the consolidated financial statements are reasonable and prudent. Actual results could differ from those estimates.

Segment Information

Accounting Standards Codification (ASC) 280, *Segment Reporting*, establishes disclosure requirements relating to operating segments in annual and interim financial statements. Business or operating segments are defined as components of an enterprise about which separate financial information is available that is regularly evaluated by the chief operating decision maker in deciding how to allocate resources and assess performance. The Company operates in one business segment, namely as an asset manager providing investment management and distribution services for individual and institutional clients. The Company s Chief Executive Officer and Chief Financial Officer are the Company s chief operating decision makers. Although the Company does make some disclosures regarding assets under management and other asset flows by product, the Company s determination that it operates in one business segment is based on the fact that the same investment and operational resources support multiple products, they have the same regulatory framework and that the Company s chief operating decision makers review the Company s financial performance at a consolidated level. All of the products and services provided relate to investment management and are subject to a similar regulatory framework and environment. Investment organizations within the Company are generally not aligned with specific product lines. Investment professionals may manage both retail and institutional products.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in banks and money market fund investments.

Investments

Marketable Securities

Marketable securities consist of investments in the Company s sponsored mutual funds and other publicly traded securities which are carried at fair value in accordance with ASC 320*, Investments Debt and Equity Securities* (ASC 320). Marketable securities are marked to market based on the respective publicly quoted net asset values of the funds or market prices of the equity securities or bonds. Marketable securities transactions are recorded on a trade date basis. Marketable securities include sponsored mutual funds, variable insurance funds and other equity securities classified as trading securities and sponsored closed-end funds classified as available-for-sale securities. Any unrealized appreciation or depreciation on available for sale securities, net of income taxes, is reported as a component of accumulated other comprehensive income in equity attributable to stockholders.

On a quarterly basis, the Company conducts reviews to assess whether other-than-temporary impairment exists on its available-for-sale marketable securities. Other-than-temporary declines in value may exist when the fair value of a marketable security has been below the carrying value for an extended period of time. If an other-

Virtus Investment Partners, Inc.

Notes to Consolidated Financial Statements (Continued)

than-temporary decline in value is determined to exist, the unrealized investment loss, net of tax, is recognized in the Consolidated Statements of Operations in the period in which the other-than-temporary decline in value occurs, as well as an accompanying permanent adjustment to accumulated other comprehensive income.

Equity Method Investments

The Company s investment in noncontrolled investees is accounted for under the equity method of accounting in accordance with ASC 323, *Investments-Equity Method and Joint Ventures*. Under the equity method of accounting, the Company s share of the noncontrolled affiliate s net income or loss is recorded in other income (expense), net in the accompanying Consolidated Statement of Operations. Distributions received reduce the Company s investment balance. The investment is evaluated for impairment as events or changes indicate that the carrying amount exceeds its fair value. If the carrying amount of an investment does exceed fair value and the decline in fair value is deemed to be other than temporary, an impairment charge will be recorded.

Non-qualified Retirement Plan Assets and Liabilities

The Company has a non-qualified retirement plan (the Excess Incentive Plan) that allows certain employees to voluntarily defer compensation. Under the Excess Incentive Plan, participants elect to defer a portion of their compensation which the Company then contributes into a trust. Each participant is responsible for designating investment options for assets they contribute and the ultimate distribution paid to each participant reflects any gains or losses on the assets realized while in the trust. The Company holds the Excess Incentive Plan assets in a rabbi trust, which is subject to the claims of the Company s creditors in the event of the Company s bankruptcy or insolvency. Assets held in trust are included in investments and are carried at fair value in accordance with ASC 320; the associated obligations to participants are included in other liabilities in the Company s Consolidated Balance Sheets. Assets held in trust consist of mutual funds and are recorded at fair value, utilizing Level 1 valuation techniques.

Deferred Commissions

Deferred commissions, which are included in other assets, are commissions paid to broker-dealers on sales of mutual fund shares. Deferred commissions are recovered by the receipt of monthly asset-based distributor fees from the mutual funds or contingent deferred sales charges received upon redemption of shares within one to five years, depending on the fund share class. The deferred costs resulting from the sale of shares are amortized on a straight-line basis over a one to five-year period, depending on the fund share class, or until the underlying shares are redeemed. Deferred commissions are periodically assessed for impairment and additional amortization expense is recorded, as appropriate.

Furniture, Equipment and Leasehold Improvements, Net

Furniture, equipment and leasehold improvements are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of 3 to 10 years for furniture and office equipment, and 3 to 5 years for computer equipment and software. Leasehold improvements are depreciated over the shorter of the remaining estimated lives of the related leases or useful lives of the improvements. Major renewals or betterments are capitalized and recurring repairs and maintenance are expensed as incurred. Leasehold improvements that are funded upfront by a landlord and are constructed for the benefit of the Company are recorded at cost and depreciated on a straight-line basis over the original minimum term of the lease and a corresponding lease incentive liability in the same amount is also recorded and initially amortized over the same period.

Virtus Investment Partners, Inc.

Notes to Consolidated Financial Statements (Continued)

Leases

The Company currently leases office space and equipment under various leasing arrangements. Leases are classified as either capital leases or operating leases, as appropriate. Most lease agreements are classified as operating leases and contain renewal options, rent escalation clauses or other inducements provided by the lessor. Rent expense under non-cancelable operating leases with scheduled rent increases or rent holidays is accounted for on a straight-line basis over the lease term, beginning on the date of initial possession or the effective date of the lease agreement. The amount of the excess of straight-line rent expense over scheduled payments is recorded as a deferred liability. Build-out allowances and other such lease incentives are recorded as deferred credits, and are amortized on a straight-line basis as a reduction of rent expense beginning in the period they are deemed to be earned, which generally coincides with the effective date of the lease.

Intangible Assets and Goodwill

Definite-lived intangible assets are comprised of acquired investment advisory contracts. These assets are amortized on a straight-line basis over the estimated useful lives of such assets, which range from 1 to 16 years. Definite-lived intangible assets are evaluated for impairment on an ongoing basis under GAAP whenever events or circumstances indicate that the carrying value of the definite-lived intangible asset may not be fully recoverable. The Company determines if impairment has occurred by comparing estimates of future undiscounted cash flows to the carrying value of assets. Assets are considered impaired, and impairment is recorded, if the carrying value exceeds the expected future undiscounted cash flows.

Goodwill represents the excess of the purchase price of acquisitions and mergers over the identified net assets and liabilities acquired. In accordance with ASC 350, *Goodwill and Other Intangible Assets,* goodwill is not being amortized. A single reporting unit has been identified for the purpose of assessing potential future impairments of goodwill. An impairment analysis of goodwill is performed annually or more frequently, if warranted by events or changes in circumstances affecting the Company s business. The Company follows the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2011-08, *Testing Goodwill for Impairment* which states an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. The Company s fiscal 2013 and 2012 annual goodwill impairment analysis did not result in any impairment charges.

Indefinite-lived intangible assets are comprised of acquired, closed-end fund investment advisory contracts. These assets are tested for impairment annually and when events or changes in circumstances indicate the assets might be impaired. The Company follows ASU No. 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment*, which provides entities with an option to perform a qualitative assessment of indefinite-lived intangible assets other than goodwill for impairment to determine if additional impairment testing is necessary. The Company s fiscal 2013 and 2012 annual indefinite-lived intangible assets impairment analyses did not result in any impairment charges.

Treasury Stock

Treasury stock is accounted for under the cost method and is included as a deduction from equity in the Stockholders Equity section of the Consolidated Balance Sheets. Upon any subsequent resale, the treasury stock account is reduced by the cost of such stock.

Virtus Investment Partners, Inc.

Notes to Consolidated Financial Statements (Continued)

Collateralized Debt Obligations

At December 31, 2013 and 2012, certain of the Company s affiliates serve as the collateral managers for collateralized debt obligations (CDOs). The CDOs, which are investment trusts, had aggregate assets under management of $0.6 billion, $0.7 billion and $1.0 billion at December 31, 2013, 2012 and 2011, respectively, which were primarily invested in a variety of fixed income securities. The CDOs reside in bankruptcy remote, special purpose entities in which the Company provides neither recourse nor guarantees. The Company has determined that it is not the primary beneficiary of these VIEs as defined by ASC 810, *Consolidation*. Accordingly, the Company s financial exposure to these CDOs is limited only to the collateral investment management fees it earns, which totaled $1.7 million, $2.5 million and $3.3 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Revenue Recognition

Investment management fees, distribution and service fees and administration and transfer agent fees are recorded as revenues during the period in which services are performed. Investment management fees are earned based upon a percentage of assets under management, and are paid pursuant to the terms of the respective investment management contracts, which generally require monthly or quarterly payment. Management fees for structured finance products, such as CLOs and CDOs, that accrue as services are rendered, but are subordinate to other interests and payable only if certain financial criteria of the underlying collateral are met, are recorded as revenues when the structured finance products are in compliance with required financial criteria and collectability is reasonably assured.

The Company accounts for investment management fees in accordance with ASC 605, *Revenue Recognition*, and has recorded its management fees net of fees paid to unaffiliated advisers. Amounts paid to unaffiliated advisers for the years ended December 31, 2013, 2012 and 2011 were $96.1 million, $53.7 million and $36.4 million, respectively.

Distribution and service fees are earned based on a percentage of assets under management and are paid monthly pursuant to the terms of the respective distribution and service fee contracts. Underwriter fees are sales-based charges on sales of certain class A-share mutual funds.

Administration and transfer agent fees consist of fund administration fees, transfer agent fees and fiduciary fees. Fund administration and transfer agent fees are earned based on the average daily assets in the funds.

Other income and fees consist primarily of redemption income on the early redemption of certain share classes of mutual funds and distribution of nonaffiliated products.

Advertising and Promotion

Advertising and promotional costs include print advertising and promotional items and are expensed as incurred. These costs are classified in other operating expense in the Consolidated Statements of Operations.

Stock-based Compensation

The Company accounts for stock-based compensation expense in accordance with ASC 718, *Compensation Stock Compensation* (ASC 718), which requires the measurement and recognition of compensation expense for share-based awards based on the estimated fair value on the date of grant. The fair value of each stock option award is estimated on the date of grant using the Black-Scholes stock option valuation model. The Black-Scholes stock option valuation model incorporates assumptions as to dividend yield, volatility, an appropriate risk-free interest rate and the expected life of the stock option.

Virtus Investment Partners, Inc.

Notes to Consolidated Financial Statements (Continued)

Restricted stock units (RSUs) are stock awards that entitle the holder to receive shares of the Company s common stock as the award vests over time. The fair value of each RSU award is estimated using the intrinsic value method, which is based on the fair market value price on the date of grant. Compensation expense for RSU awards is recognized ratably over the vesting period on a straight-line basis.

Income Taxes

The Company accounts for income taxes in accordance with ASC 740, *Income Taxes* which requires recognition of the amount of taxes payable or refundable for the current year, as well as deferred tax liabilities and assets for the future tax consequences of events that have been included in the Company s financial statements or tax returns. Deferred tax liabilities and assets result from differences between the book value and tax basis of the Company s assets, liabilities and carry-forwards, such as net operating losses or tax credits.

The Company s methodology for determining the realizability of deferred tax assets includes consideration of taxable income in prior carryback year(s) if carryback is permitted under the tax law, as well as consideration of the reversal of deferred tax liabilities that are in the same period and jurisdiction and are of the same character as the temporary differences that gave rise to the deferred tax assets. The Company s methodology also includes estimates of future taxable income from its operations, as well as the expiration dates and amounts of carryforwards related to net operating losses and capital losses. These estimates are projected through the life of the related deferred tax assets based on assumptions that the Company believes to be reasonable and consistent with demonstrated operating results. Changes in future operating results not currently forecasted may have a significant impact on the realization of deferred tax assets. Valuation allowances are provided when it is determined that it is more likely than not that the benefit of deferred tax assets will not be realized.

Comprehensive Income

The Company reports all changes in comprehensive income in the Consolidated Statements of Changes in Stockholders Equity and the Consolidated Statements of Comprehensive Income. Comprehensive income includes net income (loss), foreign currency translation adjustments (net of tax) and unrealized gains and losses on investments classified as available-for-sale (net of tax).

Earnings Per Share

Earnings per share (EPS) is calculated in accordance with ASC 260, *Earnings per Share*. Until the conversion of the Series B Convertible Preferred Stock (Series B) in January 2012, net income per common share reflected the application of the two-class method. Basic EPS excludes dilution for potential common stock issuances and is computed by dividing basic 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 stock options using the treasury stock method.

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 EPS during periods of net income. All of the outstanding shares of the Series B were converted to common stock in January 2012.

Fair Value Measurements and Fair Value of Financial Instruments

The FASB defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. ASC 820, *Fair Value*

Virtus Investment Partners, Inc.

Notes to Consolidated Financial Statements (Continued)

Measurements and Disclosures establishes a framework for measuring fair value and a valuation hierarchy based upon the transparency of inputs used in the valuation of an asset or liability. Classification within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The valuation hierarchy contains three levels as follows:

Level 1 Quoted prices for identical instruments in active markets. Level 1 assets and liabilities may include debt securities and equity securities that are traded in an active exchange market.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. Level 2 inputs may include observable market data such as closing market prices provided by independent pricing services after considering factors such as the yields or prices of comparable investments of comparable quality, coupon, maturity, call rights and other potential prepayments, terms and type, reported transactions, indications as to values from dealers and general market conditions. In addition, pricing services may determine the fair value of equity securities traded principally in foreign markets when it has been determined that there has been a significant trend in the U.S. equity markets or in index futures trading. Level 2 assets and liabilities may include debt and equity securities, purchased loans and over-the-counter derivative contracts whose fair value is determined using a pricing model without significant unobservable market data inputs.

Level 3 Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable in active exchange markets.

Recent Accounting Pronouncements

In February 2013, the FASB issued ASU No. 2013-02, *Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income*. Under ASU 2013-02, an entity is required to provide information about the amounts reclassified out of Accumulated Other Comprehensive Income (AOCI) by component. In addition, an entity is required to present, either on the face of the financial statements or in the notes thereto, significant amounts reclassified out of AOCI by the respective line items of net income, but only if the amount reclassified is required to be reclassified in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about those amounts. ASU 2013-02 does not change the current requirements for reporting net income or other comprehensive income in the financial statements. The Company has adopted this standard as of January 2013.

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

In June, 2013, the FASB issued ASU No. 2013-08, *Investment Companies: Amendments to the Scope, Measurement and Disclosure Requirements.* The new standard clarifies the characteristics of an investment company and provides comprehensive guidance for assessing whether an entity is an investment company. The amendments apply to an entity s interim and annual reporting periods in fiscal years that begin after December 15, 2013. Early application is prohibited. The Company does not believe the adoption of ASU 2013-08 will have a material impact on the Company s consolidated financial statements.

Virtus Investment Partners, Inc.

Notes to Consolidated Financial Statements (Continued)

3. Goodwill and Other Intangible Assets

Intangible assets, net are summarized as follows:

($ in thousands)	December 31, 2013	December 31, 2012
Definite-lived intangible assets, net:		
Investment contracts	$ 157,882	$ 197,704
Accumulated amortization	(145,665)	(181,409)
Definite-lived intangible assets, net	12,217	16,295
Indefinite-lived intangible assets	32,416	32,416
Total intangible assets, net	$ 44,633	$ 48,711

Activity in goodwill and other intangible assets is as follows:

($ in thousands)	Years Ended December 31, 2013	2012	2011
Intangible assets, net			
Balance, beginning of period	$ 48,711	$ 52,096	$ 52,977
Acquisition	356	560	3,068
Amortization expense	(4,434)	(3,945)	(3,949)
Balance, end of period	$ 44,633	$ 48,711	$ 52,096
Goodwill			
Balance, beginning of period	$ 5,260	$ 4,795	$ 4,795
Acquisition		465	
Balance, end of period	$ 5,260	$ 5,260	$ 4,795

Definite-lived intangible asset amortization for the next five years is estimated as follows: 2014 $3.8 million, 2015 $3.1 million, 2016 $2.3 million, 2017 $0.6 million, 2018 $0.4 million, and thereafter $2.0 million. At December 31, 2013, the weighted average estimated remaining amortization period for definite-lived intangible assets is 5.4 years.

Rampart Investment Management Company, Inc.

On October 1, 2012, the Company completed the acquisition of substantially all of the assets and certain liabilities of Rampart Investment Management Company, Inc. (Rampart), for $0.7 million in cash. Rampart is a registered investment adviser that specializes in customized options strategies. Under the terms of the purchase agreement, three years subsequent to the closing date, the Company may be required to make a contingent payment based on certain profitability measures. The estimated fair value of this contingent liability was $0.5 million and $0.4 million, which was recorded within other liabilities in the Company s Consolidated Balance Sheets as of December 31, 2013 and 2012, respectively. As a result of this acquisition, $0.2 million was recorded as definite-lived intangible assets and $0.5 million was recorded as goodwill in the Company s Consolidated Balance Sheet as of the acquisition date. The acquired contracts are being amortized on a straight-line basis over the estimated useful life of five years.

Virtus Investment Partners, Inc.

Notes to Consolidated Financial Statements (Continued)

Virtus Total Return Fund

On December 9, 2011, the Company acquired the rights to act as the adviser to the former DCA Total Return Fund which was renamed to the Virtus Total Return Fund (NYSE:DCA). The estimated fair value of the acquired contract of $2.9 million was recorded as an indefinite-lived intangible asset in the Company s Consolidated Balance Sheet as of the adoption date. The transaction was accounted for as an asset purchase and accordingly, transaction costs of $0.1 million were capitalized as of the adoption date.

4. Investments

The Company s investments, excluding the assets of consolidated sponsored investment products discussed in Note 20, at December 31, 2013 and 2012 are as follows:

	December 31,	
($ in thousands)	**2013**	**2012**
Marketable securities	$ 28,968	$ 15,048
Equity method investments	4,070	415
Nonqualified retirement plan assets	4,220	2,970
Total investments	$ 37,258	$ 18,433

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:

December 31, 2013

($ in thousands)	**Cost**	**Unrealized Loss**	**Unrealized Gain**	**Fair Value**
Trading:				
Sponsored mutual funds and variable insurance funds	$ 16,079	$ (704)	$ 2,529	$ 17,904
Equity securities	7,043		1,336	8,379
Available-for-sale:				
Sponsored closed-end funds	2,815	(145)	15	2,685
Total marketable securities	$ 25,937	$ (849)	$ 3,880	$ 28,968

December 31, 2012

($ in thousands)	**Cost**	**Unrealized Loss**	**Unrealized Gain**	**Fair Value**
Trading:				
Sponsored mutual funds and variable insurance funds	$ 7,312	$ (689)	$ 1,390	$ 8,013
Equity securities	3,739		640	4,379
Available-for-sale:				
Sponsored closed-end funds	2,619	(37)	74	2,656

Total marketable securities	$ 13,670	$ (726)	$ 2,104	$ 15,048

Virtus Investment Partners, Inc.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2013 and 2012, the Company recognized a realized gain of $1.0 million and $0.4 million, respectively, on trading securities. For the year ended December 31, 2011, the Company recognized a realized loss of less than $(0.1) million on trading securities.

Equity Method Investments

On April 9, 2013, the Company acquired a 24% noncontrolling Euro-denominated equity interest in Kleinwort Benson Investors International, Ltd. (KBII), a subsidiary of Kleinwort Benson Investors (Dublin) (KBID) for 2.6 million or $3.4 million. KBII is a U.S. registered investment adviser that provides specialized equity strategies. As of the date of acquisition, the Company allocated $2.5 million of this investment to goodwill, $0.6 million to definite-lived intangible assets that are being amortized over 7 years and $0.3 million allocated to the remaining assets and liabilities of KBII. In conjunction with this investment, the Company entered into a put and call option with KBID.

This investment is translated into U.S. dollars at current exchange rates as of the end of each accounting period. Net income or loss of the noncontrolled affiliate is translated at average exchange rates in effect during the accounting period. Net translation exchange gains and losses are excluded from income and recorded in accumulated other comprehensive income.

Nonqualified Retirement Plan Assets

The Excess Incentive Plan allows certain employees to voluntarily defer compensation. The Company holds the Excess Incentive Plan assets in a rabbi trust, which is subject to the claims of the Company s creditors in the event of the Company s bankruptcy or insolvency. Assets held in trust are included in investments and are carried at fair value in accordance with ASC 320; the associated obligations to participants are included in other liabilities in the Company s Consolidated Balance Sheets.

5. Fair Value Measurements

The Company s assets and liabilities measured at fair value, excluding the assets and liabilities of consolidated sponsored investment products discussed in Note 20, on a recurring basis as of December 31, 2013 and December 31, 2012 by fair value hierarchy level were as follows:

December 31, 2013

($ in thousands)	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$ 270,262	$	$	$ 270,262
Marketable securities trading:				
Sponsored mutual funds and variable insurance funds	17,904			17,904
Equity securities	8,379			8,379
Marketable securities available for sale:				
Sponsored closed-end funds	2,685			2,685
Other investments				
Nonqualified retirement plan assets	4,220			4,220
Total assets measured at fair value	$ 303,450	$	$	$ 303,450

Virtus Investment Partners, Inc.

Notes to Consolidated Financial Statements (Continued)

December 31, 2012

($ in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Cash equivalents	$ 62,289	$	$	$ 62,289
Marketable securities trading:				
Sponsored mutual funds and variable insurance funds	8,013			8,013
Equity securities	4,379			4,379
Marketable securities available for sale:				
Sponsored closed-end funds	2,656			2,656
Other investments				
Nonqualified retirement plan assets	2,970			2,970
Total assets measured at fair value	$ 80,307	$	$	$ 80,307

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

Sponsored mutual funds and variable insurance funds represent investments in open-end mutual funds and variable insurance funds for which the Company acts as adviser and distributor. The fair value of these securities is determined based on their published net asset values 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 classified within Level 1.

Sponsored closed-end funds represent investments for which the Company acts as adviser and are actively traded on the New York Stock Exchange. The fair value of these securities is determined based on the official closing price 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 classified as Level 1.

Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities equal or approximate fair value based on the short-term nature of these instruments. The estimated fair value of debt at December 31, 2012, which has a variable interest rate, approximates its carrying value and is classified as Level 2. There is no outstanding debt at December 31, 2013. Marketable securities are reflected in the consolidated financial statements at fair value based upon publicly quoted market prices.

Transfers into and out of levels are reflected when significant inputs, including market inputs or performance attributes, used for the fair value measurement become observable or unobservable or when the Company determines it has the ability, or no longer has the ability, to redeem, in the near term, certain investments that the Company values using a net asset value, or if the book value of certain equity method investments no longer represents fair value. There were no transfers between Level 1 and Level 2 during the years ended December 31, 2013 or 2012.

Virtus Investment Partners, Inc.

Notes to Consolidated Financial Statements (Continued)

6. Furniture, Equipment and Leasehold Improvements, Net

Furniture, equipment, and leasehold improvements, net are summarized as follows:

	December 31,	
($ in thousands)	**2013**	**2012**
Furniture and office equipment	$ 4,033	$ 4,058
Computer equipment and software	5,663	5,533
Leasehold improvements	7,240	6,865
	16,936	16,456
Accumulated depreciation and amortization	(9,717)	(8,668)
Furniture, equipment and leasehold improvements, net	$ 7,219	$ 7,788

7. Income Taxes

The components of the provision for income taxes are as follows:

	Years Ended December 31,		
($ in thousands)	**2013**	**2012**	**2011**
Current			
Federal	$ 10,395	$	$
State	1,787	341	49
Total current tax expense	12,182	341	49
Deferred			
Federal	29,933	19,707	(104,227)
State	2,663	6,982	(28,250)
Total deferred tax expense (benefit)	32,596	26,689	(132,477)
Total expense (benefit) for income taxes	$ 44,778	$ 27,030	$ (132,428)

The following presents a reconciliation of the provision (benefit) for income taxes computed at the federal statutory rate to the provision (benefit) for income taxes recognized in the Consolidated Statements of Operations for the years indicated:

	Years Ended December 31,				
($ in thousands)	**2013**		**2012**		**2011**	
Tax at statutory rate	$ 41,968	35%	$ 22,645	35%	$ 4,547	35%

State taxes, net of federal benefit	2,893	2	4,793	7	6,222	48
Affiliated stock loss					3,283	25
Contingency reserve					27,911	215
Change in valuation allowance	(264)		(242)		(174,527)	(1,343)
Other, net	181		(166)		136	1
Income tax expense (benefit)	$ 44,778	37%	$ 27,030	42%	$ (132,428)	(1,019)%

Virtus Investment Partners, Inc.

Notes to Consolidated Financial Statements (Continued)

Deferred taxes resulted from temporary differences between the amounts reported in the consolidated financial statements and the tax basis of assets and liabilities. The tax effects of temporary differences are as follows:

	December 31,	
	2013	**2012**
($ in thousands)		
Deferred tax assets:		
Intangible assets	$ 43,827	$ 51,494
Net operating losses	23,705	49,001
Capital loss carryforward		1,122
Compensation accruals	6,280	4,794
Investments	5,111	5,044
Other	1,581	83
Gross deferred tax assets	80,504	111,538
Valuation allowance	(35)	(1,611)
Gross deferred tax assets after valuation allowance	80,469	109,927
Deferred tax liabilities:		
Intangible assets	(13,078)	(10,884)
Unrealized gains	(2,357)	(1,214)
Other investments	(534)	(906)
Gross deferred tax liabilities	(15,969)	(13,004)
Deferred tax assets (liability), net	$ 64,500	$ 96,923

At each reporting date, the Company evaluates the positive and negative evidence used to determine the likelihood of realization of all its deferred tax assets. The Company maintained a valuation allowance in the amount of $0.0 million, $1.6 million and $3.3 million at December 31, 2013, 2012 and 2011, respectively, relating to deferred tax assets on items of a capital nature as well as certain state deferred tax assets.

As of December 31, 2013, the Company had $45.2 million of net operating loss carryovers for federal income tax purposes. The related federal net operating loss carryovers are scheduled to begin to expire in the year 2029. The federal capital loss carryovers were fully utilized in 2013. As of December 31, 2013, the Company had state net operating loss carryforwards, varying by subsidiary and jurisdiction, represented by a $7.9 million deferred tax asset. The state net operating loss carryovers are scheduled to begin to expire in 2015. All state capital loss carryovers were fully utilized in 2013.

Internal Revenue Code Section 382 limits tax deductions for net operating losses, capital losses and net unrealized built-in losses after there is a substantial change in ownership in a corporation s stock involving a 50 percentage point increase in ownership by 5% or larger stockholders. During the year ended December 31, 2009, due to changes in the Company s stockholder base, the Company incurred an ownership change as defined in Section 382. At December 31, 2013, the Company has approximately $70.6 million in pre-change net operating loss carryovers and built-in losses that are reflected within the Company s deferred tax assets noted above and are subject to an annual limitation of $4.2 million plus any cumulative unused 382 limitation from post-change tax years.

As a result of realization requirements of ASC 718, *Compensation-Stock Compensation*, as of December 31, 2013, the table of deferred taxes does not include $19.6 million of future tax benefits related to cumulative

Virtus Investment Partners, Inc.

Notes to Consolidated Financial Statements (Continued)

windfall deductions on certain stock-based incentive plans. Under the Company s accounting policy, these tax benefits are deemed to be utilized for financial statement purposes after all available net operating loss carryovers have been exhausted and they serve to reduce income taxes payable. When recognized the benefit is recorded as an increase to Shareholder s Equity.

Activity in unrecognized tax benefits is as follows:

	Years Ended December 31,		
($ in thousands)	**2013**	**2012**	**2011**
Balance, beginning of year	$ 33,948	$ 34,139	$
Decrease related to tax positions taken in prior years	(1,346)	(191)	
Increase related to positions taken in the current year			34,139
Balance, end of year	$ 32,602	$ 33,948	$ 34,139

As of December 31, 2013 the Company has unrecognized tax benefits primarily related to a loss resulting from the dissolution of a subsidiary. Included in the balance of unrecognized tax benefits are $31.0 million of tax benefits that, if recognized, would impact the effective tax rate.

The Company s practice is to classify interest and penalties related to income tax matters in income tax expense. The Company recorded no interest or penalties related to uncertain tax positions at December 31, 2013, 2012 and 2011. Based upon the timing and status of its current examinations by taxing authorities, it is reasonably possible that the Company s unrecognized tax benefits may increase or decrease in 2014, however, the Company cannot estimate the range of such possible changes.

In 2013, the Internal Revenue Service (IRS) commenced an examination of the Company s 2011 federal corporate income tax return. At December 31, 2013, the examination is in the preliminary stages. Based upon available information, the Company does not believe that the audit will result in any adjustment that would result in a material change in the Company s financial position.

The earliest federal tax year that remains open for examination is 2008 since unutilized net operating loss carryovers from 2008 could be denied when claimed in future years. The earliest open years in the Company s major state tax jurisdictions are 1998 and 2005 for Connecticut and New York, respectively.

8. Debt

Credit Facility

The Company has an amended and restated senior secured revolving credit facility (the Credit Facility) that has a five-year term and provides borrowing capacity of up to $75.0 million, with a $7.5 million sub-limit for the issuance of standby letters of credit. In addition, the Credit Facility provides for a $50.0 million increase provision conditioned on approval by the lending group. The Credit Facility is secured by substantially all of the assets of the Company. During the third quarter of 2013, the Company repaid the $15.0 million outstanding balance under the Credit Facility. At December 31, 2013, no amount was outstanding and at December 31, 2012, $15.0 million was outstanding under the Credit Facility. As of December 31, 2013, the Company had the capacity to draw on the entire $75.0 million under the Credit Facility.

Amounts outstanding under the Credit Facility bear interest at an annual rate equal to, at the Company s option, either LIBOR for interest periods of 1, 2, 3 or 6 months or an alternate base rate (as defined in the Credit Facility agreement), plus, in each case, an applicable margin, that ranges from 0.75% to 2.50%. Under the terms

Virtus Investment Partners, Inc.

Notes to Consolidated Financial Statements (Continued)

of the Credit Facility, the Company is also required to pay certain fees, including an annual commitment fee that ranges from 0.35% to 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 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 loans, guarantees and investments, among other things. In addition, the Credit Facility contains certain financial covenants, the most restrictive of which include: (i) 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 4.00:1, and (ii) a leverage ratio (generally, total debt 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. At December 31, 2013 and 2012, the Company was in compliance with all financial covenants under the Credit Facility.

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

9. Commitments and Contingencies

Legal Matters

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

Lease Commitments

The Company incurred rental expenses, primarily related to office space, under operating leases of $3.4 million, $3.3 million and $2.4 million in 2013, 2012 and 2011, respectively. Minimum aggregate rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2013 are as follows: $3.1 million in 2014; $2.6 million in 2015; $2.6 million in 2016; $2.5 million in 2017; $2.5 million in 2018; and $4.7 million thereafter.

Virtus Investment Partners, Inc.

Notes to Consolidated Financial Statements (Continued)

10. Equity Transactions

In September 2013, the Company issued 1.3 million shares of common stock in a public offering for net proceeds of $191.8 million after underwriting discounts, commissions and other offering expenses, pursuant to an already effective shelf registration statement.

During the year ended December 31, 2013, pursuant to the Company s initial share repurchase program implemented in the fourth quarter of 2010, the Company repurchased 105,000 common shares at a weighted average price of $187.61 per share plus transaction costs for a total cost of approximately $19.7 million. During the year ended December 31, 2012, the Company repurchased 90,000 common shares at a weighted average price of $99.30 per share for a total cost of approximately $8.9 million under the initial share repurchase program. As of December 31, 2013, the Company has repurchased a total of 350,000 shares of common stock at a weighted average price of $106.92 per share plus transaction costs for a total cost of $37.4 million completing the initial share repurchase program.

In May 2013, the Company s board of directors authorized an extension of its share repurchase program to permit the purchase of an additional 350,000 shares of common stock prior to May 21, 2016. At December 31, 2013, there were 350,000 shares of common stock remaining authorized for repurchase under the extended share repurchase program.

11. Accumulated Other Comprehensive Income

The changes in accumulated other comprehensive income by component for the years ended December 31, 2013 and 2012 are as follows:

($ in thousands)	Unrealized Gains and (Losses) on Securities Available-for-Sale	Foreign Currency Translation Adjustments
Balance December 31, 2012	$ (287)	$
Unrealized net gains on investments, net of tax of $223	56	
Foreign currency translation adjustments, net of tax of ($50)		81
Amounts reclassified from accumulated other comprehensive income		
Net current-period other comprehensive income	56	81
Balance December 31, 2013	$ (231)	$ 81

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Notes to Consolidated Financial Statements (Continued)

($ in thousands)		Unrealized Losses on Securities Available-for-Sale
Balance December 31, 2011	$	(14)
Unrealized net losses on investments, net of tax of $81		(273)
Amounts reclassified from accumulated other comprehensive income		
Net current-period other comprehensive income		(273)
Balance December 31, 2012	$	(287)

12. Capital and Reserve Requirement Information

As a broker-dealer registered with the Securities and Exchange Commission and a member of the Financial Industry Regulatory Authority, our subsidiary, VP Distributors, LLC (VPD), is subject to certain rules regarding minimum net capital. VPD operates pursuant to Rule 15c3-1(a), promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act) and, accordingly, is required to maintain a ratio of aggregate indebtedness to net capital (as those items are defined in the rule) which may not exceed 15.0 to 1.0.

Aggregate indebtedness, net capital, and the resultant ratio for VPD were as follows:

	December 31,		
($ in thousands)	2013	2012	2011
Aggregate indebtedness	$ 28,020	$ 23,443	$ 17,527
Net capital	22,086	16,617	10,874
Ratio of aggregate indebtedness to net capital	1.3 to 1	1.4 to 1	1.6 to 1

VPD s minimum required net capital at December 31, 2013 and 2012 based on its aggregate indebtedness on those dates was $1.9 million and $1.6 million, respectively.

The operations of VPD do not include the physical handling of securities or the maintenance of open customer accounts. Accordingly, VPD is exempt from the reserve provisions of Rule 15c3-3 promulgated under the Exchange Act under the exemption allowed by paragraph (k)(2)(i) of such rule.

13. Restructuring and Severance

During 2013, 2012 and 2011, the Company recorded restructuring charges of $0.2 million, $1.6 million and $2.0 million, respectively, related to headcount reductions and consolidation activities. These restructuring and severance charges have been included within restructuring and severance expenses in the accompanying Consolidated Statements of Operations. There was no unpaid severance and related charges as of December 31, 2013.

14. BMO Related Party Transactions

In May 2006, the Company acquired the rights to advise, distribute and administer the Insight Funds from BMO Asset Management Corp. (BMO), a subsidiary of BMO Financial Corp. BMO and BMO Financial Corp., a significant stockholder of the Company, are related parties of the Company.

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Notes to Consolidated Financial Statements (Continued)

Subadvisory investment management fees and distribution and administration fee expenses paid or payable to BMO were $0.5 million, $2.1 million and $3.0 million for the years ended December 31, 2013, 2012, and 2011 respectively. At both December 31, 2013 and December 31, 2012, less than $0.1 million was payable to BMO and its affiliates related to subadvisory investment management fees and distribution fees.

15. Series B Convertible Preferred Stock

On January 6, 2012, pursuant to an agreement with BMO, BMO s 35,217 shares of the Series B converted into 1,349,300 shares of the Company s common stock. As a result of this conversion, all of the shares of Series B have been retired.

16. Retirement Savings Plan

The Company sponsors a defined contribution 401(k) retirement plan (the 401(k) Plan) covering all employees who meet certain age and service requirements. Employees may contribute a percentage of their eligible compensation into the 401(k) Plan, subject to certain limitations imposed by the Internal Revenue Code. The Company matches employees contributions at a rate of 100% of employees contributions up to the first 3.0% and 50.0% of the next 2.0% of the employees compensation contributed to the 401(k) Plan. The Company s matching contributions were $2.5 million, $2.0 million and $1.6 million in 2013, 2012 and 2011, respectively.

17. 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 RSUs, stock options and unrestricted shares of common stock. At December 31, 2013, 1,800,000 shares of common stock were authorized for issuance under the Plan, of which 495,658 remain available for grant. Each RSU entitles the holder to one share of Virtus common stock when the restriction expires. RSUs generally have a term of one to three years and may be either time-vested or performance-contingent. 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. 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. Shares that are issued upon exercise of stock options and vesting of RSUs are newly issued shares and not issued from treasury stock.

The Company estimated the grant-date fair value of stock options last granted using the Black-Scholes option valuation model with the following assumptions:

	2011
Expected dividend yield	0.0%
Expected volatility	47.2%
Risk-free interest rate	2.4%-2.9%
Expected life	6.5 years

Expected dividend yield The Company has never declared or paid dividends on its common stock.

Expected volatility Volatility is a measure of the amount by which a financial variable such as a share price has fluctuated (historical volatility) or is expected to fluctuate (expected volatility) during a period. The Company based its estimated volatility on the historical volatility of a peer group of publically 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.

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Notes to Consolidated Financial Statements (Continued)

Risk-free interest rate This is the average U.S. Treasury rate at the time of grant having a term that most closely approximates the expected term of the option.

Expected life This is the period of time that the stock option grants are expected to remain outstanding. The Company calculates the expected life of the stock options using the simplified method as prescribed under the provisions of ASC 718. The simplified method was used because sufficient historical exercise data necessary for the Company to provide a reasonable basis to estimate the expected life does not exist. The Company generally uses the midpoint between the end of the vesting period and the contractual life of the grant to estimate stock option exercise timing. The simplified method was applied for all stock options granted during 2011.

Stock-based compensation expense is summarized as follows:

	Years Ended December 31,		
	2013	**2012**	**2011**
($ in thousands)			
Stock-based compensation expense	$ 7,960	$ 6,927	$ 5,625

During the years ended December 31, 2013 and December 31, 2012, the Company granted 15,237 and 47,996 performance contingent RSUs, respectively. During the years ended December 31, 2013, December 31, 2012 and December 31 2011, total stock-based compensation expense included $1.1 million, $1.7 million and $1.3 million, respectively, for these performance contingent RSUs. As of December 31, 2013 and 2012, unamortized stock-based compensation expense for performance contingent RSUs was $2.1 million and $3.2 million, respectively.

As of December 31, 2013, unamortized stock-based compensation expense for outstanding RSUs and stock options was $8.9 million and $0.1 million, respectively, with weighted average remaining amortization periods of 1.0 years and 0.2 years, respectively. As of December 31, 2012, unamortized stock-based compensation expense for outstanding RSUs and stock options was $7.1 million and $0.2 million, respectively, with weighted average remaining amortization periods of 1.4 years and 0.7 years, respectively. The Company did not capitalize any stock-based compensation expenses during the years ended December 31, 2013, 2012 and 2011.

Stock option activity for the year ended December 31, 2013 is summarized as follows:

	Number of shares	Weighted Average Exercise Price
Outstanding at December 31, 2012	220,349	$ 20.03
Granted		$
Exercised	(29,826)	$ 19.10
Forfeited	(363)	$ 55.18
Outstanding at December 31, 2013	190,160	$ 20.11
Vested and exercisable at December 31, 2013	182,077	$ 18.54
Stock options expected to vest at December 31, 2013	8,083	$ 55.33

The weighted-average grant-date fair value of stock options granted during the year ended December 31, 2011 was $27.56. The weighted-average remaining contractual term for stock options outstanding at December 31, 2013 and December 31, 2012 was 4.8 and 5.8 years, respectively. The weighted-average remaining contractual term for stock options vested and exercisable at December 31, 2013 was 4.7 years. The weighted-average remaining contractual term for stock options expected to vest at December 31, 2013 was 7.2 years. At December 31, 2013, the aggregate intrinsic value of stock options outstanding, stock options vested and

Virtus Investment Partners, Inc.

Notes to Consolidated Financial Statements (Continued)

exercisable, and stock options expected to vest was $34.2 million, $33.0 million, and $1.2 million, respectively. The total grant-date fair value of stock options vested during the years ended December 31, 2013, 2012 and 2011 was $0.2 million, $1.2 million and less than $0.1 million, respectively. The total intrinsic value of stock options exercised for the years ended December 31, 2013, 2012 and 2011 was $5.1 million, $9.2, $0.9 million, respectively. Cash received from stock option exercises was $0.6 million, $2.6 million and $1.3 million for 2013, 2012 and 2011, respectively.

RSU activity for the year ended December 31, 2013 is summarized as follows:

	Number of shares	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2012	292,057	$ 57.89
Granted	46,000	$ 188.36
Forfeited	(12,750)	$ 94.22
Settled	(91,544)	$ 41.45
Outstanding at December 31, 2013	233,763	$ 87.97

The grant-date intrinsic value of RSUs granted during the year ended December 31, 2013 was $8.7 million. At December 31, 2013, outstanding RSUs have a weighted average remaining contractual life of 1.0 years. The weighted-average grant-date fair value of RSUs granted during the years ended December 31, 2013, 2012 and 2011 was $188.36, $81.47 and $52.28 per share, respectively. The total fair value of RSUs vested during the years ended December 31, 2013, 2012 and 2011 was $17.9 million, $30.7 million and $2.9 million, respectively. For the years ended December 31, 2013, 2012 and 2011, a total of 38,222, 143,102 and 12,484 RSUs, respectively, were withheld through net share settlement by the Company to settle employee tax withholding obligations. The Company paid $7.5 million, $11.5 million and $0.7 million for the years ended December 31, 2013, 2012 and 2011, respectively, in 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.

Employee Stock Purchase Plan

The Company offers an employee stock purchase plan that allows employees to purchase shares of common stock on the open market at market price through after-tax payroll deductions. The initial transaction fees are paid for by the Company and shares of common stock are purchased on a quarterly basis. The Company does not reserve shares for this plan or discount the purchase price of the shares.

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Notes to Consolidated Financial Statements (Continued)

18. Earnings Per Share

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

	Years Ended December 31,		
	2013	**2012**	**2011**
($ in thousands, except per share amounts)			
Net Income	$ 77,130	$ 37,773	$ 145,420
Noncontrolling interests	(1,940)	(101)	
Preferred stockholder dividends			(9,482)
Allocation of earnings to preferred stockholders		(64)	(24,260)
Net Income Attributable to Common Stockholders	$ 75,190	$ 37,608	$ 111,678
Shares:			
Basic: Weighted-average number of shares outstanding	8,188	7,727	6,211
Plus: Incremental shares from assumed conversion of dilutive instruments	245	346	623
Diluted: Weighted-average number of shares outstanding	8,433	8,073	6,834
Earnings per share basic	$ 9.18	$ 4.87	$ 17.98
Earnings per share diluted	$ 8.92	$ 4.66	$ 16.34

For the years ended December 31, 2013, 2012 and 2011, there were no instruments excluded from the above computation of weighted-average shares for diluted EPS because the effect would be anti-dilutive.

19. Concentration of Credit Risk

The concentration of credit risk with respect to advisory fees receivable is generally limited due to the short payment terms extended to clients by the Company. The following funds provided 10 percent or more of the total revenues of the Company:

	Years Ended December 31,		
	2013	**2012**	**2011**
($ in thousands)			
Virtus Emerging Markets Opportunities Fund			
Investment management, administration and transfer agent fees	$ 53,202	$ 29,818	*
Percent of total revenues	14%	12%	*
Virtus Multi-Sector Short Term Bond Fund			
Investment management, administration and transfer agent fees	$ 52,568	$ 39,475	$ 24,445
Percent of total revenues	14%	17%	14%
Virtus Premium AlphaSector Fund			
Investment management, administration and transfer agent fees	$ 41,921	$ 27,987	*
Percent of total revenues	11%	12%	*

* Less than 10 percent of total revenues of the Company.

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Notes to Consolidated Financial Statements (Continued)

20. Consolidated Sponsored Investment Products

In the normal course of its business, the Company sponsors and is the manager of various types of investment products. During the years ended December 31, 2013 and 2012, the Company sponsored and consolidated several mutual funds in which it had a majority voting interest. The consolidation 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, nor does it bear the risks associated with, these investment products, beyond the Company s investments in, and fees generated from these products. If the Company were to liquidate, these investments would not be available to the general creditors of the Company. The Company does not consider cash and investments held by consolidated sponsored investment products to be assets of the Company other than its direct investment in these products.

During the year ended December 31, 2012, the Company consolidated eight mutual funds. During the year ended December 31, 2013, the Company consolidated five additional mutual funds and deconsolidated five mutual funds because it no longer had a majority voting interest. As of December 31, 2013, the Company consolidated a total of eight mutual funds. No mutual funds were consolidated during the year ended December 31, 2011.

The following table presents the balances of the consolidated sponsored investment products that were reflected in the Consolidated Balance Sheets as of December 31, 2013 and 2012:

	As of December 31,	
($ in thousands)	**2013**	**2012**
Total cash	$ 531	$ 14
Total investments	139,054	43,227
All other assets	9,595	683
Total liabilities	(8,435)	(377)
Redeemable noncontrolling interest	(42,186)	(3,163)
The Company s net interests in consolidated sponsored investment products	$ 98,559	$ 40,384

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Notes to Consolidated Financial Statements (Continued)

Consolidation

The following tables reflect the impact of the consolidated sponsored investment products in the Consolidated Balance Sheets as of December 31, 2013 and 2012 and the Consolidated Statements of Income for the years ended December 31, 2013 and 2012, respectively. The Company had no consolidated sponsored investment products during the year ended December 31, 2011:

As of December 31, 2013

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

As of December 31, 2012

($ in thousands)	**Balance Before Consolidation of Investment Products**	**Consolidated Sponsored Investment Products**	**Eliminations and Adjustments (a)**	**Balances as Reported in Consolidated Balance Sheet**
Total cash	$ 63,432	$ 14	$	$ 63,446
Total investments	58,830	43,227	(40,397)	61,660
All other assets	206,947	683	13	207,643
Total assets	$ 329,209	$ 43,924	$ (40,384)	$ 332,749
Total liabilities	84,738	364	13	85,115
Redeemable noncontrolling interest			3,163	3,163
Equity attributable to stockholders of the Company	244,474	43,560	(43,560)	244,474
Non-redeemable noncontrolling interest	(3)			(3)
Total liabilities and equity	$ 329,209	$ 43,924	$ (40,384)	$ 332,749

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

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Notes to Consolidated Financial Statements (Continued)

For the Year Ended December 31, 2013

($ in thousands)	Balance Before Consolidation of Investment Products	Consolidated Sponsored Investment Products	Eliminations and Adjustments (a)	Balances as Reported in Consolidated Statement of Operations
Total operating revenues	$ 389,202	$	$ 13	$ 389,215
Total operating expenses	274,913	785	13	275,711
Operating income (loss)	114,289	(785)		113,504
Total other non-operating income (expense)	5,620	6,098	(3,314)	8,404
Income (loss) before income tax expense	119,909	5,313	(3,314)	121,908
Income tax expense	44,778			44,778
Net income (loss)	75,131	5,313	(3,314)	77,130
Noncontrolling interests	59		(1,999)	(1,940)
Net income (loss) attributable to the Company	$ 75,190	$ 5,313	$ (5,313)	$ 75,190

For the Year Ended December 31, 2012

($ in thousands)	Balance Before Consolidation of Investment Products	Consolidated Sponsored Investment Products	Eliminations and Adjustments (a)	Balances as Reported in Consolidated Statement of Operations
Total operating revenues	$ 279,919	$	$ 167	$ 280,086
Total operating expenses	219,326	148	167	219,641
Operating income (loss)	60,593	(148)		60,445
Total other non-operating income (expense)	4,106	2,649	(2,397)	4,358
Income (loss) before income tax expense	64,699	2,501	(2,397)	64,803
Income tax expense	27,030			27,030
Net income (loss)	37,669	2,501	(2,397)	37,773
Noncontrolling interests	3		(104)	(101)
Allocation of earnings to preferred stockholders	(64)			(64)
Net income (loss) attributable to the Company	$ 37,608	$ 2,501	$ (2,501)	$ 37,608

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

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Notes to Consolidated Financial Statements (Continued)

Investments of Consolidated Sponsored Investment Products

Investments of consolidated sponsored investment products represent the underlying debt and equity securities held in sponsored mutual funds in which the Company has an investment and are consolidated by the Company. They are summarized as follows:

December 31, 2013

($ in thousands)	**Cost**	**Unrealized Loss**	**Unrealized Gain**	**Fair Value**
Trading debt securities	$ 48,994	$ (2,097)	$ 217	$ 47,114
Trading equity securities	84,862	(882)	7,960	91,940
Total Investments of Consolidated Sponsored Investment Products	$ 133,856	$ (2,979)	$ 8,177	$ 139,054

December 31, 2012

($ in thousands)	**Cost**	**Unrealized Loss**	**Unrealized Gain**	**Fair Value**
Trading debt securities	$ 24,830	$ (21)	$ 1,003	$ 25,812
Trading equity securities	16,537	(144)	1,022	17,415
Total Investments of Consolidated Sponsored Investment Products	$ 41,367	$ (165)	$ 2,025	$ 43,227

Fair Value Measurements of Consolidated Sponsored Investment Products

The assets of the consolidated sponsored investment products measured at fair value on a recurring basis as of December 31, 2013 and December 31, 2012 by fair value hierarchy level were as follows:

December 31, 2013

($ in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Debt securities	$	$ 47,114	$	$ 47,114
Equity securities	91,940			91,940
Total Investments of Consolidated Sponsored Investment Products at Fair Value	$ 91,940	$ 47,114	$	$ 139,054

December 31, 2012

($ in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Debt securities	$	$ 25,812	$	$ 25,812
Equity securities	10,092	7,323		17,415
Total Investments of Consolidated Sponsored Investment Products at Fair Value	$ 10,092	$ 33,135	$	$ 43,227

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

Investments of consolidated sponsored investment products represent the underlying debt and equity securities held in sponsored mutual funds in which the Company has an investment and are consolidated by the

Virtus Investment Partners, Inc.

Notes to Consolidated Financial Statements (Continued)

Company. Equity securities are valued at the official closing price on the exchange on which the securities are traded and are categorized within Level 1. Level 2 investments include certain non-U.S. securities for which closing prices are not readily available or are deemed to not reflect readily available market prices and are valued using an independent pricing service as well as most debt securities, which are valued based on quotations received from independent pricing services or from dealers who make markets in such securities. Pricing services do not provide pricing for all securities and therefore indicative bids from dealers are utilized, which are based on pricing models used by market makers in the security and are also included within Level 2.

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2013 and 2012, respectively.

21. Selected Quarterly Data (Unaudited)

	2013			
($ in thousands, except share data)	**Fourth Quarter**	**Third Quarter**	**Second Quarter**	**First Quarter**
Revenues	$ 106,498	$ 100,409	$ 96,140	$ 86,168
Operating Income	33,892	31,630	26,882	21,100
Net Income Attributable to Common Stockholders	24,756	21,089	15,385	13,960
Earnings per share Basic	$ 2.72	$ 2.64	$ 1.97	$ 1.79
Earnings per share Diluted	$ 2.65	$ 2.56	$ 1.91	$ 1.73

	2012			
	Fourth Quarter	**Third Quarter**	**Second Quarter**	**First Quarter**
Revenues	$ 78,919	$ 71,951	$ 66,818	$ 62,398
Operating Income	20,472	17,767	14,253	7,953
Net Income Attributable to Common Stockholders	12,213	11,642	8,367	5,386
Earnings per share Basic	$ 1.56	$ 1.48	$ 1.08	$ 0.72
Earnings per share Diluted	$ 1.50	$ 1.43	$ 1.04	$ 0.68