

VIRTUS INVESTMENT PARTNERS, INC.

Form 10-Q

July 31, 2015

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

OR

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

For the transition period from _____ to _____

Commission File Number: 001-10994

VIRTUS INVESTMENT PARTNERS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
100 Pearl St., Hartford, CT 06103
(Address of principal executive offices) (Zip Code)
(800) 248-7971
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☒ NO ☐

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

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

The number of shares outstanding of the registrant's common stock was 8,818,629 as of July 24, 2015.

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

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

	June 30, 2015	December 31, 2014
<i>(\$ in thousands, except share data)</i>		
Assets:		
Cash and cash equivalents	\$ 194,334	\$ 202,847
Cash of consolidated sponsored investment products	1,372	457
Cash pledged or on deposit of consolidated sponsored investment products	10,888	8,230
Investments	59,301	63,448
Investments of consolidated sponsored investment products	270,997	236,652
Accounts receivable, net	43,488	49,721
Furniture, equipment, and leasehold improvements, net	9,377	7,193
Intangible assets, net	42,509	41,783
Goodwill	6,663	5,260
Deferred taxes, net	59,783	60,162
Other assets	14,326	16,060
Other assets of consolidated sponsored investment products	8,960	6,960
Total assets	\$ 721,998	\$ 698,773
Liabilities and Equity		
Liabilities:		
Accrued compensation and benefits	\$ 27,134	\$ 54,815
Accounts payable and accrued liabilities	43,456	31,627
Dividends payable	4,251	4,270
Other liabilities	13,172	9,082
Liabilities of consolidated sponsored investment products	19,455	12,556
Total liabilities	107,468	112,350
Commitments and Contingencies (Note 12)		
Redeemable noncontrolling interests	55,557	23,071
Equity:		
Equity attributable to stockholders:		
Common stock, \$0.01 par value, 1,000,000,000 shares authorized; 9,606,658 shares issued and 8,818,629 shares outstanding at June 30, 2015 and 9,551,274	96	96

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shares issued and 8,975,833 shares outstanding at December 31, 2014		
Additional paid-in capital	1,144,029	1,148,908
Accumulated deficit	(478,402)	(507,521)
Accumulated other comprehensive loss	(661)	(242)
Treasury stock, at cost, 788,029 and 575,441 shares at June 30, 2015 and December 31, 2014, respectively	(105,699)	(77,699)
Total equity attributable to stockholders	559,363	563,542
Noncontrolling interests	(390)	(190)
Total equity	558,973	563,352
Total liabilities and equity	\$ 721,998	\$ 698,773

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
<i>(\$ in thousands, except per share data)</i>				
Revenues				
Investment management fees	\$ 68,867	\$ 74,537	\$ 139,363	\$ 146,329
Distribution and service fees	17,635	23,940	37,233	46,378
Administration and transfer agent fees	12,577	13,942	25,619	27,015
Other income and fees	577	330	1,272	898
Total revenues	99,656	112,749	203,487	220,620
Operating Expenses				
Employment expenses	33,593	35,481	69,215	70,510
Distribution and other asset-based expenses	23,676	39,222	48,183	66,959
Other operating expenses	23,512	13,130	40,238	23,664
Other operating expenses of consolidated sponsored investment products	957	797	1,775	1,128
Depreciation and other amortization	873	670	1,652	1,327
Amortization expense	837	947	1,674	1,904
Total operating expenses	83,448	90,247	162,737	165,492
Operating Income	16,208	22,502	40,750	55,128
Other Income (Expense)				
Realized and unrealized gain on investments, net	343	905	888	2,751
Realized and unrealized (loss) gain on investments of consolidated sponsored investment products, net	(3,242)	6,444	(652)	6,480
Other income, net	247	189	682	340
Total other (expense) income, net	(2,652)	7,538	918	9,571
Interest Income (Expense)				
Interest expense	(121)	(125)	(244)	(263)
Interest and dividend income	302	344	582	727
Interest and dividend income of investments of consolidated sponsored investment products	3,098	1,639	5,422	2,512
Total interest income, net	3,279	1,858	5,760	2,976

Income Before Income Taxes	16,835	31,898	47,428	67,675
Income tax expense	7,823	12,106	18,691	26,116
Net Income	9,012	19,792	28,737	41,559
Noncontrolling interests	765	(249)	382	(78)
Net Income Attributable to Common Stockholders	\$ 9,777	\$ 19,543	\$ 29,119	\$ 41,481
Earnings per share Basic	\$ 1.10	\$ 2.14	\$ 3.26	\$ 4.55
Earnings per share Diluted	\$ 1.08	\$ 2.10	\$ 3.20	\$ 4.44
Cash dividends declared per share	\$ 0.45	\$ 0.45	\$ 0.90	\$ 0.45
Weighted Average Shares Outstanding Basic (in thousands)	8,889	9,133	8,927	9,125
Weighted Average Shares Outstanding Diluted (in thousands)	9,037	9,325	9,094	9,343

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
<i>(\$ in thousands)</i>				
Net Income	\$ 9,012	\$ 19,792	\$ 28,737	\$ 41,559
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment, net of tax of \$30 and \$8 for the three months ended June 30, 2015 and 2014, respectively and \$195 and \$(7) for the six months ended June 30, 2015 and 2014, respectively	(49)	(11)	(320)	13
Unrealized (loss) gain on available-for-sale securities, net of tax of \$62 and \$(75) for the three months ended June 30, 2015 and 2014, respectively and \$61 and \$(115) for the six months ended June 30, 2015 and 2014, respectively	(103)	122	(99)	185
Other comprehensive (loss) income	(152)	111	(419)	198
Comprehensive income	8,860	19,903	28,318	41,757
Comprehensive loss (income) attributable to noncontrolling interests	765	(249)	382	(78)
Comprehensive income attributable to common stockholders	\$ 9,625	\$ 19,654	\$ 28,700	\$ 41,679

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

Table of Contents**Virtus Investment Partners, Inc.****Condensed Consolidated Statements of Cash Flows****(Unaudited)****Six Months Ended
June 30,
2015 2014***(\$ in thousands)***Cash Flows from Operating Activities:**

Net income	\$ 28,737	\$ 41,559
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation expense, intangible asset and other amortization	3,436	3,340
Stock-based compensation	6,433	4,510
Excess tax benefits from stock-based compensation	(1,328)	(583)
Amortization of deferred commissions	5,339	9,578
Payments of deferred commissions	(2,040)	(8,490)
Equity in earnings of equity method investments	(669)	(61)
Realized and unrealized gains on trading securities, net	(609)	(2,751)
Realized and unrealized losses (gains) on investments of consolidated sponsored investment products, net	2,315	(6,666)
Sales of trading securities, net	8,131	20,576
Purchases of investments by consolidated sponsored investment products, net	(39,993)	(150,473)
Sales of securities sold short by consolidated sponsored investment products, net	2,040	10,501
Deferred taxes, net	636	7,314
Changes in operating assets and liabilities:		
Cash pledged or on deposit of consolidated sponsored investment products	(3,489)	(11,958)
Accounts receivable, net and other assets	4,665	(5,022)
Other assets of consolidated sponsored investment products	(1,855)	4,455
Accrued compensation and benefits, accounts payable, accrued liabilities and other liabilities	(15,104)	(5,306)
Liabilities of consolidated sponsored investment products	4,909	(1,606)
Net cash provided by (used in) operating activities	1,554	(91,083)

Cash Flows from Investing Activities:

Capital expenditures	(2,978)	(1,459)
Change in cash and cash equivalents of consolidated sponsored investment products due to deconsolidation		(366)
Asset acquisitions and purchases of other investments	(1,601)	
Cash acquired in business combination	89	
Purchases of available-for-sale securities	(111)	(204)
Net cash used in investing activities	(4,601)	(2,029)

Cash Flows from Financing Activities:

Borrowings of proceeds from short sales by consolidated sponsored investment products	831	
Dividends paid	(8,167)	
Repurchases of common shares	(28,000)	(12,500)
Proceeds from exercise of stock options	61	391
Taxes paid related to net share settlement of restricted stock units		