

VIRTUS INVESTMENT PARTNERS, INC.  
Form 10-K  
March 08, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2009

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  
(State or other jurisdiction of

incorporation or organization)

100 Pearl St., 9th Floor, Hartford, CT 06103

(Address of principal executive offices)

95-4191764  
(I.R.S. Employer

Identification No.)

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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<br>(including attached Preferred | NASDAQ Global Market                      |

Share Purchase Rights)

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.  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  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 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 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. (Check one):

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 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 price share as quoted on the NASDAQ Global Market) as of the last business day of the registrant's most recently completed second fiscal quarter was \$84,800,434. 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 5,843,318 shares of the registrant's common stock outstanding on March 4, 2010.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement which will be filed with the SEC in connection with the 2010 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

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**Virtus Investment Partners, Inc.**

**Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2009**

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### **Item 1. Business. Organization**

Virtus Investment Partners, Inc. (the Company, we, us, our or Virtus ) operates primarily through its subsidiaries known as Virtus Investment Partners which commenced operations on November 1, 1995 through a reverse merger with Duff & Phelps Corporation. From 1995 to 2001, we were a majority-owned indirect subsidiary of The Phoenix Companies, Inc. ( PNX ). On January 11, 2001, a subsidiary of PNX acquired the outstanding shares of the Company not already owned and the Company became an indirect wholly-owned subsidiary of PNX. On October 31, 2008, after the sale of convertible preferred stock to Harris Bankcorp, Inc. ( Harris Bankcorp ), a subsidiary of the Bank of Montreal, we became an indirect, majority-owned subsidiary of PNX. On December 31, 2008, PNX distributed 100% of Virtus common stock to PNX stockholders in a spin-off transaction, excluding the net assets and business of the Company's subsidiary, Goodwin Capital Advisers, Inc. ( Goodwin ), which had historically been a wholly owned subsidiary of the Company. Following the spin-off, PNX has no ownership interest in the Company and Harris Bankcorp owns 100% of the Company's outstanding shares of Series B Convertible Preferred Stock. As a new standalone public company after the spin-off, we have completed the rebranding of our company as Virtus, relocated our corporate offices to a new facility, hired employees and service providers necessary to replace those services that had historically been provided by PNX and obtained standalone insurance, legal, audit and other services.

### **Our Business**

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

Investors have an array of needs driven by factors such as market conditions, risk tolerance and investment goals. A key element of our business is offering a variety of investment styles and multiple disciplines to meet those needs. To that end, for our mutual funds, we supplement the investment capabilities of our affiliated managers with those of select unaffiliated sub-advisors. We do that by partnering with unaffiliated sub-advisors whose strategies we believe appeal to investors and are not typically available to retail mutual fund customers.

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

### **Our Investment Managers**

Our investment management services are provided by our affiliated managers as well as by unaffiliated sub-advisors. The affiliated managers, who are registered investment advisors under the Investment Advisers Act of 1940, as amended (the Investment Advisers Act ), manage our mutual funds and closed-end funds, and provide investment management services for institutional and separately managed accounts. We provide our managers with distribution and administrative support, thereby allowing each affiliated manager to focus on investment management. Our affiliated managers participate in the earnings they generate through compensation

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arrangements that include incentive bonus pools based primarily on their profits. For certain of our open-end mutual funds, we complement our affiliated managers skills with those of unaffiliated boutique sub-advisors who offer strategies that we believe also appeal to investors. At December 31, 2009, \$10.0 billion of our assets under management were managed by unaffiliated sub-advisors. We monitor the quality of the managers' products by assessing their performance, style, consistency and the discipline with which they apply their investment process.

Our affiliated firms and their respective assets under management, styles and products are as follows:

|                                   | <b>Affiliated Managers</b>                             |  |   |  |                           |
|-----------------------------------|--|--|---|--|---------------------------|
|                                   | <b>Kayne</b>   |  |   |  |                           |
|                                   | <b>Duff &amp; Phelps</b>                               |  | <b>Anderson</b>                                     |  |                           |
|                                   | <b>Investment</b>                                      |  | <b>Rudnick</b>                                      |  |                           |
|                                   | <b>Management</b>                                      |  | <b>Investment</b>                                   |  | <b>Zweig</b>              |
| <b>Assets Under Management at</b> |  | <b>SCM Advisors</b>  |   |  | <b>Advisors</b>           |
| <b>December 31, 2009</b>          |  |  |   |  | <b>Other</b>              |
| <i>(\$ in billions)</i>           |  |  |   |  |                           |
| <b>Location</b>                   | \$6.5  | \$3.1  | \$3.9   | \$1.6  | \$0.3                     |
| <b>Investment</b>                 | Chicago, IL<br>Quality oriented,<br>focusing on income | San Francisco, CA<br>Value-driven fixed<br>income;<br>fundamental growth<br>equity | Los Angeles, CA<br>Quality at a<br>reasonable price | New York, NY<br>Growth at a<br>reasonable price;<br>high quality<br><br>fixed income | Various<br>Fundamental    |
| <b>Approach</b>                   |  |  |   |  |                           |
| <b>Investment Types</b>           |  |  |   |  |                           |
| Equities                          | REITs  | Large and  | Large, Mid and                                      | Tactical Asset   | Small Cap                 |
|                                   | Utilities  | Small Cap Growth   | Small Cap Value<br>and Core Growth                  | Allocation   | Core, Growth and<br>Value |
|                                   | Global   |  |   | Large Cap Core   | Mid Cap Core              |
|                                   | Infrastructure   |  |   |  |                           |
| Fixed Income                      | Core   | Core   | CA Municipal  | Core   | Core                      |
|                                   | Municipal Bonds  | Core Plus  | Bonds   |  | Municipal Bonds           |
|                                   |  | High Yield   |   |  |                           |
| <b>Products</b>                   |  |  |   |  |                           |
| Open-End Funds                    | ü  | ü  | ü   | ü  | ü                         |
| Closed-End Funds                  | ü  |  |   | ü  |                           |
| Separately Managed Accounts       |  | ü  | ü   |  | ü                         |
| Institutional                     | ü  | ü  | ü   |  | ü                         |
| <b>Our Investment Products</b>    |  |  |   |  |                           |

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Our assets under management are comprised of mutual fund assets (open- and closed-end), separately managed accounts (intermediary sponsored and private client) and institutional accounts (traditional institutional mandates and structured products).

**Table of Contents***Assets Under Management By Product as of December 31, 2009**(\$ in billions)*

|                                      | <b>Retail Products</b> |                                     | <b>Institutional Products</b>     |
|--------------------------------------|------------------------|-------------------------------------|-----------------------------------|
| <i>Mutual fund assets:</i>           |                        | <i>Separately managed accounts:</i> | <i>Institutional assets:</i>      |
| Open-end funds                       | \$ 12.8                | Intermediary sponsored              | \$ 1.6                            |
| Closed-end funds                     | 4.3                    | Private client accounts             | 1.9                               |
|                                      |                        |                                     | Institutional accounts \$ 3.9     |
|                                      |                        |                                     | Structured products 0.9           |
| Total mutual fund assets             | \$ 17.1                | Total managed account assets        | \$ 3.5                            |
|                                      |                        |                                     | Total institutional assets \$ 4.8 |
| <b>Total Assets Under Management</b> |                        |                                     | <b>\$ 25.4</b>                    |

**Open-End Mutual Funds**

As of December 31, 2009, we managed 46 open-end funds, across a variety of equity and fixed income styles, including money market, asset allocation and alternative investments, with total assets of \$12.8 billion.

Our equity fund offerings encompass a number of market caps and investment styles, including large-, mid- and small-cap funds offered in value, core and growth styles, and including international, global, emerging market and sector-specific funds. Our fixed income fund offerings cover a broad range of fixed income asset classes, including core, multi-sector, tax-exempt and high yield. We also offer individual money market funds focused on corporate, tax-exempt and government securities.



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Our family of open-end mutual funds as of December 31, 2009 is comprised of the following:

| <b>Fund Type/Name</b>                            | <b>Inception</b> | <b>Assets<br/>(\$ in millions)</b> | <b>Advisory<br/>Fee (1)<br/>(%)</b> | <b>3-Year<br/>Return (2)<br/>(%)</b> |
|--|------------------|------------------------------------|-------------------------------------|--------------------------------------|
| <b>Alternative</b>                               |                  |                                    |                                     |                                      |
| Virtus Alternatives Diversifier Fund (3)         | 2005             | \$ 94.1                            | 0.10                                | (2.69)                               |
| Virtus Global Infrastructure Fund                | 2004             | 89.1                               | 0.65-0.55(4)                        | (0.88)                               |
| Virtus International Real Estate Securities Fund | 2007             | 29.9                               | 1.00-0.90(4)                        | n/a                                  |
| Virtus Market Neutral Fund                       | 1998             | 87.9                               | 1.50-1.40(4)                        | 0.03                                 |
| Virtus Real Estate Securities Fund               | 1995             | 883.2                              | 0.75-0.65(4)                        | (12.32)                              |
| Virtus Global Real Estate Securities Fund        | 2009             | 2.5                                | 0.85-0.75(4)                        | n/a                                  |
| <b>Asset Allocation</b>                          |                  |                                    |                                     |                                      |
| Virtus Balanced Fund                             | 1975             | 648.8                              | 0.55-0.45(4)                        | (1.05)                               |
| Virtus Tactical Allocation Fund                  | 1940             | 198.6                              | 0.70-0.60(4)                        | (0.50)                               |
| Virtus Balanced Allocation Fund                  | 1997             | 60.9                               | 0.50-0.45(4)                        | (1.93)                               |
| Virtus AlphaSector™ Allocation Fund (3)          | 2003             | 28.2                               | 0.45-0.40(4)                        | (1.36)                               |
| <b>Equity</b>                                    |                  |                                    |                                     |                                      |
| Virtus Capital Growth Fund                       | 1975             | 282.4                              | 0.70-0.60(4)                        | (4.54)                               |
| Virtus Growth & Income Fund                      | 1997             | 141.6                              | 0.75-0.65(4)                        | (5.23)                               |
| Virtus Core Equity Fund                          | 1996             | 90.9                               | 0.70-0.65(4)                        | (4.93)                               |
| Virtus Disciplined Small-Cap Opportunity Fund    | 1996             | 82.9                               | 0.75                                | (11.17)                              |
| Virtus Disciplined Small-Cap Value Fund          | 1997             | 125.7                              | 0.70                                | (10.10)                              |
| Virtus Value Equity Fund                         | 1996             | 164.2                              | 0.70-0.65(4)                        | (6.56)                               |
| Virtus Mid-Cap Growth Fund                       | 1975             | 84.9                               | 0.80-0.70(4)                        | (7.16)                               |
| Virtus Mid-Cap Value Fund                        | 1997             | 400.8                              | 0.75-0.70(4)                        | (6.50)                               |
| Virtus Mid-Cap Core Fund                         | 2009             | 0.5                                | 0.80-0.70(4)                        | n/a                                  |
| Virtus Quality Small-Cap Fund                    | 2006             | 93.7                               | 0.90-0.80(4)                        | (4.30)                               |
| Virtus Small-Cap Growth Fund                     | 1994             | 58.8                               | 1.00-0.80(4)                        | (10.90)                              |
| Virtus Small-Cap Sustainable Growth Fund         | 2006             | 5.6                                | 0.90-0.80(4)                        | (4.48)                               |
| Virtus Small-Cap Core Fund                       | 1996             | 49.5                               | 0.85-0.80(4)                        | (3.26)                               |
| Virtus Strategic Growth Fund                     | 1995             | 157.7                              | 0.70-0.60(4)                        | (5.18)                               |
| Virtus Quality Large-Cap Value Fund              | 2005             | 47.2                               | 0.75-0.65(4)                        | (8.03)                               |
| Virtus AlphaSector™ Rotation Fund                | 2003             | 162.9                              | 0.45-0.40(4)                        | (3.40)                               |
| <b>Fixed Income</b>                              |                  |                                    |                                     |                                      |
| Virtus Bond Fund                                 | 1996             | 220.8                              | 0.45-0.40(4)                        | 5.60                                 |
| Virtus CA Tax-Exempt Bond Fund                   | 1983             | 57.8                               | 0.45-0.35(4)                        | 2.93                                 |
| Virtus High Yield Fund                           | 1980             | 94.7                               | 0.65-0.55(4)                        | 0.67                                 |
| Virtus High Yield Income Fund                    | 2002             | 44.0                               | 0.45                                | 1.54                                 |
| Virtus Intermediate Government Bond Fund         | 1997             | 37.0                               | 0.45                                | 5.75                                 |
| Virtus Intermediate Tax-Exempt Bond Fund         | 1996             | 81.7                               | 0.45                                | 4.22                                 |
| Virtus Short/Intermediate Bond Fund              | 1996             | 93.8                               | 0.55-0.45(4)                        | 5.08                                 |
| Virtus Tax-Exempt Bond Fund                      | 1996             | 90.0                               | 0.45                                | 4.61                                 |
| Virtus Institutional Bond Fund                   | 1983             | 46.3                               | 0.45-0.40(4)                        | 5.09                                 |
| Virtus Multi-Sector Fixed Income Fund            | 1989             | 192.3                              | 0.55-0.45(4)                        | 4.29                                 |
| Virtus Multi-Sector Short Term Bond Fund         | 1992             | 2,228.2                            | 0.55-0.45(4)                        | 4.83                                 |
| Virtus Senior Floating Rate Fund                 | 2008             | 95.3                               | 0.60-0.50(4)                        | n/a                                  |
| <b>International/Global</b>                      |                  |                                    |                                     |                                      |
| Virtus Foreign Opportunities Fund                | 1990             | 1,196.8                            | 0.85-0.75(4)                        | (5.17)                               |
| Virtus Emerging Markets Opportunities Fund       | 1997             | 278.9                              | 1.00-0.95(4)                        | 3.35                                 |
| Virtus Global Opportunities Fund                 | 1960             | 58.1                               | 0.85-0.75(4)                        | (10.23)                              |
| Virtus Greater European Opportunities Fund       | 2009             | 6.9                                | 0.85-0.80(4)                        | n/a                                  |
| Virtus Greater Asia Ex Japan Opportunities Fund  | 2009             | 7.2                                | 1.00-0.95(4)                        | n/a                                  |
| <b>Money Market Funds</b>                        |                  |                                    |                                     |                                      |
| Virtus Insight Government Money Market Fund      | 1988             | 300.0                              | 0.14-0.10(4)                        | 2.21                                 |
| Virtus Insight Money Market Fund                 | 1988             | 2,586.5                            | 0.14-0.10(4)                        | 2.89                                 |
| Virtus Insight Tax-Exempt Money Market Fund      | 1988             | 1,044.0                            | 0.14-0.10(4)                        | 2.02                                 |

|                             |                    |
|-----------------------------|--------------------|
| <b>Total Open-End Funds</b> | <b>\$ 12,832.8</b> |
|-----------------------------|--------------------|

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- (1) Percentage of average daily net assets of each fund.
- (2) Annualized return reflects performance of the largest share class as measured by net assets for which performance data is available.
- (3) These funds invest in other Virtus open-end mutual funds as well as electronically traded funds ( ETFs ). The related assets of Virtus open-end funds are reflected in the balances of the respective funds.
- (4) These funds have breakpoints at which advisory fees decrease as assets in the funds increase. Percentages listed represent the range from the highest fees to the lowest fees.

Past performance does not guarantee future results. Investment return and principal value will fluctuate so that shares, when redeemed, may be worth more or less than their original cost.

**Closed-End Funds**

We manage the assets of five closed-end funds as of December 31, 2009, each of which is traded on the New York Stock Exchange, with total assets of \$4.3 billion. Closed-end funds do not continually offer to sell and redeem their shares; rather, daily liquidity is provided by the ability to trade the shares of these funds at prices that may be above or below the shares' net asset value. Our closed-end products include utility, municipal and corporate taxable and tax-exempt bonds and tactical asset allocation strategies provided by two of our affiliated managers.

Our family of closed-end funds as of December 31, 2009, is comprised of the following:

| Fund Type/Name                                      | Assets<br>(\$ in billions) | Advisory<br>Fee<br>% |
|---|----------------------------|----------------------|
| <b>Balanced</b>                                     |                            |                      |
| Zweig Total Return                                  | \$ 0.5                     | 0.70(1)              |
| DNP Select Income Fund Inc.                         | 2.8                        | 0.60-0.50(2)         |
| <b>Equity</b>                                       |                            |                      |
| Zweig Fund  | 0.3                        | 0.85(1)              |
| <b>Fixed</b>  |                            |                      |
| DTF Tax-Free Income Inc.                            | 0.2                        | 0.50(3)              |
| Duff & Phelps Utility and Corporate Bond Trust Inc. | 0.5                        | 0.50(3)              |
| <b>Total Closed-End Funds</b>                       | <b>\$ 4.3</b>              |                      |

- (1) Percentage of average daily net assets of each fund.
- (2) Percentage of average weekly net assets. The fee structure of this fund has breakpoints at which advisory fees decrease as assets in the fund increase. Percentages listed represent the range from the highest fee to the lowest fee.
- (3) Percentage of average weekly managed assets.

**Separately Managed Accounts**

Separately managed accounts are individually owned portfolios that are managed by an investment manager. Separately managed accounts include broker-dealer sponsored programs, whereby an intermediary assists individuals in identifying their investment objectives and hires investment managers that have been approved by the broker-dealer to fulfill those objectives; and private client accounts that are accounts of high net worth individuals who are direct clients of our affiliates. Intermediary sponsored programs and private client account assets totaled \$3.5 billion at December 31, 2009.

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We offer a variety of equity, fixed income and real estate investment trust strategies to institutional clients, including corporations, multi-employer retirement funds and foundations, endowments and special purpose funds. Our institutional assets under management totaled \$4.8 billion as of December 31, 2009.

**Our Investment Management, Administration and Transfer Agent Fees**

Our net investment management fees, administration fees and net transfer agent fees earned in each of the last three years were as follows:

| (\$ in millions)                            | Years Ended December 31, |                 |                 |
|---|--------------------------|-----------------|-----------------|
|   | 2009                     | 2008            | 2007            |
| Investment management fees                  |                          |                 |                 |
| Open-end funds                              | \$ 31.4                  | \$ 47.0         | \$ 58.7         |
| Closed-end funds                            | 20.8                     | 24.1            | 26.2            |
| Separately managed accounts                 | 14.8                     | 21.1            | 29.5            |
| Institutional products                      | 12.7                     | 23.4            | 33.0            |
| Institutional PNX General Account           |                          | 12.0            | 11.6            |
| <b>Total investment management fees (1)</b> | <b>79.7</b>              | <b>127.6</b>    | <b>159.0</b>    |
| Administration fees                         | 9.9                      | 13.0            | 16.0            |
| Transfer agent fees                         | 2.8                      | 5.3             | 7.4             |
| <b>Total</b>                                | <b>\$ 92.4</b>           | <b>\$ 145.9</b> | <b>\$ 182.4</b> |

(1) Includes \$13.7 million and \$13.6 million of Goodwin investment management fees for the years ended December 31, 2008 and 2007, respectively, which are no longer earned by the Company post spin-off.

***Investment Management Fees***

We provide investment management services to funds and accounts pursuant to investment management agreements. With respect to open-end funds and closed-end funds, we receive fees based on each fund's average daily or weekly net assets. Most fee schedules provide for rate declines as asset levels increase to certain thresholds. For those funds for which we have sub-advisory agreements, the sub-advisors receive a portfolio management fee based on the percentage of the aggregate amount of average daily net assets in the funds they sub-advise. For separately managed accounts and institutional accounts, fees are negotiated and are based primarily on asset size, portfolio complexity and individual client requests, and range from 0.10% to 1.00% for equity strategies and from 0.08% to 0.50% for fixed income strategies.

Each of our mutual funds has entered into an investment management agreement with a Company advisory subsidiary (each, an Adviser). Although specific terms of agreements vary, the basic terms are similar. Pursuant to the agreements, the Adviser provides overall management services to a fund, subject to supervision by the fund's board of directors. The investment management agreements are approved initially by fund shareholders and must be approved annually by each fund's board of directors, including a majority of the directors who are not interested persons of the Adviser. Generally, agreements may be terminated by either party upon 60 days' written notice, and may terminate automatically in certain situations, such as a change in control of the Adviser. In arrangements where our funds are managed by a sub-advisor, the agreement calls for the sub-advisor to manage the day-to-day operations of the fund's portfolio.

Each fund bears all expenses associated with its operations, including the costs associated with the issuance and redemption of securities, where applicable. The funds do not bear compensation expenses of directors or officers of the fund who are employed by the Company or its subsidiaries. In some cases, to the extent certain enumerated expenses exceed a specified percentage of a fund's or a portfolio's average net assets for a given year, the Adviser may reimburse the funds for such excess expenses.



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We act as the collateral manager for structured finance products, such as collateralized debt obligations ( CDOs ). Fees consist of both senior management fees and subordinated management fees. Senior management fees are calculated at a contractual fee rate applied against the current par value of the total collateral being managed. Subordinated management fees, also calculated against the current par value of the total collateral being managed, are recognized only after certain portfolio criteria are met. The underlying collateral is primarily comprised of high yield, asset-backed and mortgage-backed securities and loans. The Company has no financial or operational obligations with respect to the underlying performance of the collateral. For the investment management services being provided for existing structured finance products, management expects this revenue to decline over time as CDOs experience redemptions and liquidations. Structured finance product assets under management totaled \$0.9 billion at December 31, 2009.

### ***Administration Fees***

We provide fund administration services to our open-end funds and certain of the closed-end funds. As provided in arrangements with these funds, our subsidiary VP Distributors Inc. ( VPD ), subject to the oversight of the funds' trustees or directors, is responsible for managing the business affairs of our mutual funds. Administrative services include recordkeeping, preparing and filing documents required to comply with federal and state securities laws, legal administration and compliance services, supervising the activities of the funds' other service providers, providing assistance with fund shareholder meetings, as well as providing office space, equipment and personnel that may be necessary for managing and administering the business affairs of the funds.

### ***Transfer Agent Fees***

We provide transfer agent services to our open-end funds and certain of the closed-end funds. As provided in arrangements with these funds, VPD, subject to the oversight of the funds' trustees or directors, is responsible for acting as transfer and dividend disbursing agent for our open-end funds. VPD is responsible for handling orders for shares of our mutual funds. Transfer agent services include receiving and processing orders for purchases, exchanges and redemptions of fund shares; conveying payments; maintaining shareholder accounts; preparing shareholder meeting lists; mailing, receiving and tabulating proxies; mailing shareholder reports and prospectuses; withholding taxes on shareholder accounts; preparing and filing required forms for dividends and distributions; preparing and mailing confirmation forms, statements of account and activity statements; and providing shareholder account information.

### ***Our Distribution Services***

Our principal retail marketing strategy is to distribute funds and separately managed accounts through financial intermediaries to individuals. We have broad access in this marketplace, with distribution partners that include national and regional broker-dealers, independent broker-dealers and independent financial advisory firms. We support these distribution partners with a team of regional sales professionals ( wholesalers ), a national account relationship group and separate teams for the retirement market and the registered investment advisory market. Our sales and marketing professionals serve as a resource to financial advisors seeking to help clients address wealth management issues and support the marketing of our products and services tailored to this marketplace.

We also commit significant resources to serving high-net-worth clients who access investment advice outside of traditional retail broker-dealer channels. Specialized teams at our affiliates develop relationships in this market and deal directly with these clients.

Our institutional distribution strategy combines both a coordinated and affiliate-centric model. Our product specialists, who are part of the portfolio management teams at our affiliated managers, team with sales generalists and consultant relationship personnel, representing all of our investment strategies. Through relationships with consultants, they target key market segments, including foundations and endowments, corporate, public and private pension plans.

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### **Our Broker-Dealer Services**

VPD, a broker-dealer registered under the Securities Exchange Act of 1934, as amended (the Exchange Act), serves as principal underwriter and national wholesale distributor of our open-end mutual funds and managed accounts. Mutual fund shares are distributed by VPD under sales agreements with unaffiliated national and regional broker-dealers and financial institutions. VPD also markets advisory services of affiliated managers to sponsors of managed account programs.

### **Our Competition**

We face significant competition from a wide variety of financial institutions, including other investment management companies, as well as from proprietary products offered by our distribution sources such as banks, broker-dealers and financial planning firms. Competition in our businesses is based on several factors including investment performance, access to distribution channels, service to advisors and their clients and fees charged. Our competitors, many of which are larger than we are, often offer similar products, use similar distribution sources, offer less expensive products, have greater access to key distribution channels and have greater resources than us.

### **Our Regulatory Matters**

We are subject to regulation by the Securities and Exchange Commission (SEC), Financial Industry Regulatory Authority (FINRA) and other federal and state agencies and self-regulatory organizations. Each advisor, including unaffiliated sub-advisors, is registered with the SEC under the Investment Advisers Act. Each closed-end fund, open-end fund and defined portfolio is registered with the SEC under the Investment Company Act of 1940. VPD is registered with the SEC under the Exchange Act and is a member of FINRA.

The financial services industry is one of the most highly regulated in the United States and failure to comply with related laws and regulations can result in the revocation of registrations, the imposition of censures or fines, and the suspension or expulsion of a firm and/or its employees from the industry. All of our funds currently available for sale are qualified in all 50 states, Washington, D.C., Puerto Rico and the U.S. Virgin Islands. Most aspects of our investment management business, including the business of the sub-advisors, are subject to various federal and state laws and regulations.

Our officers, directors, and employees may, from time to time, own securities that are also held by one or more of our funds. Our internal policies with respect to personal investments are established pursuant to the provisions of the Investment Company Act and/or the Investment Advisers Act. Employees, officers and directors who, in the function of their responsibilities, meet the requirements of the Investment Company Act or Investment Advisers Act, or of FINRA regulations, must disclose personal securities holdings and trading activity. Those employees, officers and directors with investment discretion or access to investment decisions are subject to additional restrictions with respect to the pre-clearance of the purchase or sale of securities over which they have investment discretion or beneficial interest. Other restrictions are imposed upon access persons with respect to personal transactions in securities held, recently sold or contemplated for purchase by the Company's open-end and closed-end funds. All access persons are required to report holdings and transactions on an annual and quarterly basis pursuant to the provisions of the Investment Company Act and Investment Advisers Act. In addition, certain transactions are restricted so as to seek to avoid the possibility of improper use of information relating to the management of client accounts.

### **Our Employees**

As of December 31, 2009, we had approximately 278 full time equivalent employees. None of our employees is a union member. We consider our relations with our employees to be good.

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### **Relationship with Harris Bankcorp**

Pursuant to an Investment and Contribution Agreement dated as of October 30, 2008, among PNX, Phoenix Investment Management Company ( PIM ), the Company, and Harris Bankcorp (the Investment Agreement ), PIM sold Harris Bankcorp 9,783 shares of our Series A Preferred Stock on October 31, 2008 for a nominal amount. In connection with the proposed spin-off of the Company, on December 31, 2008, Harris Bankcorp and PIM exchanged the 9,783 shares of Series A Preferred Stock for an equal number of shares of our Series B Convertible Preferred Stock (the Series B ). PIM then sold an additional 35,217 shares of our Series B to Harris Bankcorp for \$35.0 million.

As a result, Harris Bankcorp currently holds 45,000 shares of our Series B. The Series B ranks senior to our common stock and to any class or series of stock of the Company that we may issue in the future unless, subject to the approval of the Series B, the terms of such stock expressly provides otherwise, and ranks junior to our existing and future indebtedness and liabilities. The Series B is initially convertible into approximately 23% of our fully diluted common stock. As a condition of the Investment Agreement, Harris Bankcorp has the right to nominate one director to our board of directors, so long as it beneficially owns at least 10% of our common stock (including shares issuable on the conversion of our Series B). Additionally, so long as at least 66 2/3% of the Series B initially sold to Harris Bankcorp remains outstanding, the holders of a majority of the outstanding shares of Series B have the right to elect one director to our board of directors pursuant to the Series B Certification of Designations. In the event that Harris Bankcorp exercises the additional financing right described under Management s Discussion and Analysis of Financial Condition and Results of Operations Series B Convertible Preferred Stock, and, as a result, beneficially owned in excess of 33% of our outstanding common stock (including shares issuable on the conversion of our Series B), it would have the right to appoint one additional director to our Board, subject to regulatory considerations.

For additional information on the terms of the Series B and Harris Bankcorp s rights under the Investment Agreement, see Management s Discussion and Analysis of Financial Condition and Results of Operations Series B Convertible Preferred Stock .

### **Available Information**

The Company s annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act will be available free of charge on the Company s website located at [www.virtus.com](http://www.virtus.com) as soon as reasonably practicable after they are filed with or furnished to the SEC. These reports are also available at the SEC s website at [www.sec.gov](http://www.sec.gov).

A copy of the Company s Corporate Governance Principles, its Code of Conduct, and the charters of the Audit Committee, the Compensation Committee and the Governance Committee are posted on the Company s website, [www.virtus.com](http://www.virtus.com), under Investor Relations, and are available in print to any person who requests copies by contacting Investor Relations by email to: [investor.relations@virtus.com](mailto:investor.relations@virtus.com) or by mail to Virtus Investment Partners, Inc., c/o Investor Relations, 100 Pearl Street, Hartford, CT 06103. Information contained on the website is not incorporated by reference or otherwise considered part of this document.



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**Item 1A. Risk Factors**

You should carefully consider the risks described below, together with all of the other information included in this Annual Report, in evaluating the Company and our common stock. If any of the risks described below actually occurs, our business, results of operations, financial condition and stock price could be materially adversely affected.

**Risk Factor Related to the Current Market Environment**

*Market and economic developments may materially and adversely affect our business, revenues, earnings, sales, assets under management, liquidity, financial condition and results of operations.*

Financial markets have experienced unprecedented credit and liquidity issues over the past two years, resulting in significant volatility and declines in the equity and fixed income markets during this period. Markets have rebounded considerably since the lows reached in the first quarter of 2009, however, they continue to be at levels substantially lower than experienced prior to the deterioration of economic conditions. Credit markets have suffered significantly, with many lenders and institutional investors reducing, and in some cases, ceasing to provide funding to borrowers, including other financial institutions. Additionally, concerns over increasing unemployment, fluctuating inflation and energy costs have contributed to diminished expectations for the economy and the financial markets going forward. These factors, combined with declining business and consumer confidence and increased unemployment, have precipitated a prolonged economic slowdown over the past two years. As a result, there has been a severe impact on the global financial markets and economies.

This economic environment has had a direct impact on the investing activities of both retail and institutional investors. The declines and volatility in the equity and fixed income markets over the past two years have reduced the value of our assets under management which has resulted in lower fee revenues. The continuing turmoil in the equity and debt markets impacts investor confidence, resulting in investors favoring significantly lower investment risk. The adverse conditions of the markets and the economic environment, which could continue throughout 2010 and beyond, have and may continue to have a negative impact on our assets under management and our revenues.

Changes in our assets under management are driven in great part by the performance of the equity markets. While markets generally experienced positive performance in 2009, with the S&P 500 Index up approximately 23% during the year, the markets also experienced significant volatility during this period with the S&P 500 Index down as much as 42% for the year on March 9, 2009. We expect that market volatility could continue in the short term. As markets continue to experience volatility, we may experience decreased investment inflows and increased redemptions of certain products as a result of these market conditions.

We are unable to predict how long the economic downturn or volatile equity and debt markets will continue and it is difficult to predict which aspects of our products and/or business will be adversely affected by these conditions. Market and economic developments have affected, or have the potential to affect, us adversely by:

reducing the value of the assets we manage, which has resulted in, and could continue to result in, lower fee revenues;

impacting the returns and attractiveness of our investment products, which has caused and may continue to cause existing clients to withdraw assets and diminish our ability to attract assets from new and existing clients, which would result in lower sales and fee revenues;

causing a change in the mix of our assets under management to less profitable products;

increasing the risk that we are not able to maintain compliance with our debt covenants;

increasing competition from competitors that may be larger than we are and have more resources than we do;

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affecting the access to, and reliability of, our intermediary distribution channels and service providers, which could adversely affect our sales, redemptions and business operations;

causing regulators to change laws and regulations that affect us, which may result in greater compliance costs and restrictions on our ability to do business;

encouraging litigation, arbitration and regulatory action in response to the increased frequency and magnitude of investment losses, which may result in unfavorable judgments, awards and settlements, regulatory fines and an increase in our related legal expenses;

increasing the difficulty of performing administrative functions such as determining the value of assets we manage, which may affect our service levels and our ability to retain existing clients or attract new clients;

damaging our reputation indirectly by association with the industries most seriously affected by market and economic developments, or directly due to a decline in investment performance or service levels, which may affect our ability to retain existing clients or attract new clients;

damaging our reputation due to the inability of investors to redeem auction rate preferred securities, issued by certain of our closed-end funds, due to the failures of remarketing auctions caused by illiquidity in the auction rate preferred market, which previously provided investment liquidity to certain of our closed-end funds; and

damaging our reputation or creating pressure to support certain of our money market funds should these funds become at risk of falling below a \$1.00 net asset value, referred to as "breaking the buck," due to illiquidity in the money markets or credit-related impairments of their holdings.

Any of these negative effects may materially and adversely affect our business, revenues, earnings, sales, assets under management, liquidity, financial condition and results of operations.

### **Risk Factors Relating to Our Business**

*Our historical consolidated financial information is not necessarily representative of the results we would have achieved as a standalone company and may not be a reliable indicator of our future results.*

Our historical consolidated financial information prior to January 1, 2009 included in this Annual Report does not reflect the financial condition, results of operations or cash flows we would have achieved as a standalone company during the periods presented or those we will achieve in the future. This is primarily a result of the following:

our historical financial information prior to January 1, 2009 reflects the assets and business of Goodwin; however, the Goodwin assets and business are no longer part of the Company following the spin-off;

our historical financial results prior to January 1, 2009 reflect allocations of corporate expenses from PNX, which may be different than the comparable expenses we would have actually incurred in prior years or will incur as a standalone company;

our current cost of debt and capitalization are different from that reflected in our historical consolidated financial statements prior to January 1, 2009; and

significant changes have occurred in our cost structure, management, financing and business operations as a result of our separation from our former parent company, including additional costs for us to establish our new operating infrastructure. Such costs include, but are not limited to, (i) additional employees required to perform tasks previously handled by our former parent company, (ii) a new board of directors for our company, (iii) standalone insurance coverage, (iv) standalone audit, legal and other professional services and costs and (v) costs associated with standalone SEC reporting and compliance.

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### ***Poor investment performance of our products could adversely affect our assets under management, sales, revenues and earnings.***

The securities markets can be volatile. There are several ways in which market declines and volatility have affected, and have the potential to affect, us negatively, including:

limiting our fee revenues by reducing the value of the assets we manage;

decreasing sales of our investment products;

causing existing clients to withdraw assets from our managed investment products, which would result in lower fee revenues; and

increasing the risk of litigation, claims and regulatory action.

Net flows related to our investment management strategies can be affected by investment performance relative to other investment management companies. Our investment management strategies are rated or ranked by independent third parties and individual distribution partners, and many industry periodicals and services provide assessments of the relative performance of our strategies. These assessments often affect the investment decisions of customers. If the relative performance or assessments of our strategies decline materially, the assets under management related to these strategies may decrease as customers select strategies with better performance.

Future periods of poor performance in the securities markets or relative performance of our products would have an adverse effect on our assets under management, sales, revenues, the carrying value of our goodwill or intangible assets, and earnings.

### ***We may not be able to satisfy financial covenants under our existing credit facility.***

Under the Company's credit facility, the Company must maintain certain financial covenants. A summary of the credit facility terms and the specific financial covenants is included in this report under Management's Discussion and Analysis of Financial Condition and Results of Operations. As of December 31, 2009, the Company was in compliance with all financial covenants. There can be no assurance that at all times in the future we will satisfy all such financial covenants or obtain any required waiver or amendment, in which event all outstanding indebtedness could become immediately due.

### ***We may be unable to obtain financing for future cash needs.***

Global credit markets and the financial services industry have been experiencing a period of unprecedented turmoil, and these events have adversely impacted the availability and cost of credit. If additional financing becomes necessary to fund operations, fund new business initiatives, refinance our existing credit facility or for any other purpose, there can be no assurance that such financing would be available on favorable terms or at all given the continued weakness in the credit markets and our limited operating history as a standalone public company. Potential types of financing arrangements, if available, could include secured or unsecured credit facilities, lines of credit, or other bank financing arrangements.

### ***Our business operations, investment returns and profitability could be adversely impacted by inadequate performance of third-party relationships.***

We are dependent on certain third-party relationships to maintain essential business operations. These services include, but are not limited to, information technology infrastructure, application systems support, mutual fund and investment accounting services, transfer agent and cash management services, custodial services, records storage management, backup tape management, security pricing services, payroll, legal and employee benefit programs. In addition, we maintain contractual relationships with certain investment management firms to sub-advise some of our portfolios.



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We periodically negotiate provisions and renewals of these relationships and there can be no assurance that such terms will remain acceptable to such third parties or us. An interruption in our continuing relationship with certain of these third parties or any material delay or inability to deliver essential and any other contracted services could materially affect our business operations and potentially adversely affect our profitability.

*Any damage to our reputation could harm our business and lead to a loss of revenues and income.*

Our business relies on earning and maintaining a strong reputation with the investment community. Our reputation is vulnerable to many threats that can be difficult or impossible to control, and costly or impossible to remediate. Regulatory inquiries, poor relative investment performance or other misconduct and rumors, among other things, can substantially damage our reputation, even if they are baseless or satisfactorily addressed. Any damage to our reputation could impede our ability to attract and retain clients and key personnel, and lead to a reduction in the amount of our assets under management, any of which could have a material adverse effect on our revenues and income.

*We might be unable to attract or retain employees who are integral to our business.*

The success of our business is dependent to a large extent on our ability to attract and retain key employees. Competition in the job market for professionals such as senior executives, portfolio managers, securities analysts and sales personnel is generally intense. Most of our employees are not subject to employment contracts or non-compete agreements. Any inability to retain our key employees, or to attract and retain additional qualified employees, could have a negative impact on our business.

In addition, because the success of our business depends upon our key personnel, our ability to prepare in advance for and to respond to any unexpected management changes is important for the success of our business. Any inability or delay by us in replacing any of our key management positions that may become vacant could negatively impact our management of the business and future business operations and results.

*The independent trustees or directors of our mutual funds and closed-end funds, intermediary program sponsors, managed account clients and institutional investment management clients could terminate or amend their contracts with us. This would reduce our revenues and earnings.*

Each of the mutual funds and closed-end funds for which we act as investment advisor or sub-advisor is registered under the Investment Company Act of 1940 (the "Investment Company Act") and is governed by a board of trustees or board of directors. Each fund's contract is renewed annually by the fund's board. Either the board members or, in limited circumstances, the stockholders may terminate an advisory contract with us and move the assets to another investment advisor. In certain situations, such as a change in control of an advisor, advisory contracts may be terminated automatically. The board members also may deem it to be in the best interests of a fund's stockholders to make other decisions adverse to us, such as reducing the compensation paid to us, requesting that we subsidize fund expenses over certain thresholds or imposing restrictions on our management of the fund.

Our investment management agreements with intermediary program sponsors, private clients and institutional clients are generally terminable by these sponsors and clients upon short notice without penalty. As a result, there would be little impediment to these sponsors or clients terminating our agreements if they became dissatisfied with our performance.

Our contracts with mutual funds and closed-end funds, intermediary program sponsors, managed account clients and institutional investment management clients could from time to time be subject to varying interpretations of key terms, resulting in perceived or actual requirements to amend such contracts. In such circumstances, we could be subject to adverse outcomes resulting from our need to resolve such matters with independent trustees, directors, shareholders, client legal counsel or other responsible oversight parties.

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The termination or amendment of any of the above agreements relating to a material portion of assets under management would adversely affect our investment management fee revenues and earnings and could possibly require us to take a charge to earnings as a result of the impairment of the goodwill or intangible assets associated with our asset managers.

*Investors in open-end funds can redeem their investments in these funds at any time without prior notice, which could adversely affect our earnings.*

Open-end fund investors may redeem their investments in those funds at any time without prior notice. Investors may reduce the aggregate amount of assets under management for any number of reasons, including, particularly in the current economic environment, to meet cash requirements, investment performance, changes in prevailing interest rates and financial market performance. Poor performance relative to other asset management firms tends to result in decreased purchases of mutual fund shares and increased redemptions of mutual fund shares. The pace of mutual fund redemptions may accelerate in a declining stock market. The redemption of investments in mutual funds managed by our affiliated managers would adversely affect our revenues.

*Our intangible assets could become impaired which could have an adverse impact on our results from operations.*

At December 31, 2009, the Company had total assets of \$134.0 million which included \$59.7 million of goodwill and other intangible assets. We cannot be certain that we will ever realize the value of such intangible assets. It could be necessary to recognize impairment of these assets should we experience significant decreases in assets under management, the termination of a material investment management contract or material outflows if clients withdraw their assets following the departure of a key employee or for any other reasons. For the year ended December 31, 2008, we recognized impairment charges totaling \$559.3 million due to these types of factors.

*We face strong competition in our businesses from mutual fund companies, banks and investment management firms, which could impair our ability to retain existing customers, attract new customers and maintain our profitability.*

We face strong competition in our businesses. We believe that our ability to compete is based on a number of factors, including investment performance, service, distribution capabilities and relative scale. We are also highly dependent on our distribution relationships. Our actual and potential competitors include a large number of mutual fund companies, banks and investment management firms, many of which have advantages over us. Industry consolidation has resulted in larger competitors with financial resources, marketing and distribution capabilities, and brand identities that are stronger than ours. Larger firms also may be able to offer, due to economies of scale, lower cost products. In addition, new or alternative product offerings may emerge or increase in popularity, such as electronically traded funds, which could create additional competition and could result in decreased demand for our historical product offerings. If we do not compete effectively in this environment, our profitability and financial condition would be materially adversely affected.

*Potential changes in federal and state regulation could limit the sources and amounts of our revenues, increase our costs of doing business, decrease our profitability and materially and adversely affect our business.*

We are subject to compliance with the Sarbanes-Oxley Act of 2002, as well as regulation by the SEC, FINRA and other federal and state agencies and self-regulatory organizations (including NASDAQ). Each advisor (including unaffiliated sub-advisors) is registered with the SEC under the Investment Advisers Act. Each closed-end fund and open-end fund is registered with the SEC under the Investment Company Act. Our broker-dealer is registered with the SEC under the Exchange Act and is a member of FINRA. All of our funds currently

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available for sale are qualified in all 50 states, Washington, D.C., Puerto Rico, and the U.S. Virgin Islands. Most aspects of our investment management business, including the business of the sub-advisors, are subject to various federal and state laws and regulations.

These laws generally grant supervisory agencies and bodies the power to limit or restrict us and any sub-advisor from carrying on its investment management business in the event that it fails to comply with such laws and regulations. Sanctions may include the suspension of individual employees, limitations on our engaging in the investment management business for specified periods of time, the revocation of the advisors registrations as investment advisors or other censures and fines.

Compliance with these laws and regulations is time consuming and personnel-intensive, and changes in these laws and regulations may increase materially our direct and indirect compliance costs and other expenses of doing business and our compliance risks, thus having an adverse effect on our business and operating results.

Although we spend substantial time and resources on our compliance policies, procedures and practices, non-compliance with applicable statutes, laws, rules, regulations and other requirements or our inability to timely and properly modify and update our compliance policies, procedures and practices to this frequently changing and highly complex regulatory environment, could result in our being subject to sanctions, fines, penalties, cease and desist or other relief, license revocation, suspensions or even expulsion from particular activities or markets.

### ***Legal and regulatory actions are inherent in our businesses and could result in financial losses or harm to our businesses.***

We are at various times involved in litigation and arbitration, both as a defendant and as a plaintiff. In addition, various regulatory bodies regularly make inquiries of us and, from time to time, conduct examinations or investigations concerning our compliance with, among other things, securities laws and laws governing the activities of broker-dealers. At various times we and our employees have also been subject to other claims alleging violations of rules and regulations of the SEC, FINRA and other regulatory authorities. There has been a significant increase in federal and state regulatory activity relating to financial services companies. We may be subject to further related or unrelated inquiries or actions in the future.

Uncertain economic conditions and heightened volatility in the financial markets, such as those which have been experienced over the past two years, may increase the likelihood that clients, regulators or other persons may present or threaten legal claims or that regulators increase the scope or frequency of their examination of the Company or the investment management industry in general.

There can be no assurance that our assessment of any claim or regulatory inquiry or proceeding will reflect the ultimate outcome and the outcome of any particular matter may be material to our operating results for a particular period.

It is not feasible to predict or determine the ultimate outcome of all legal or regulatory proceedings or to provide reasonable ranges of potential losses. Because of the inherent difficulty of predicting the outcome of any legal claims or regulatory inquiries or other matters, we cannot provide assurance as to the outcome of this or other pending or future matters, or if ultimately determined adversely to us, the loss, expense or other amounts or sanctions attributable to such matter, particularly where the matter presents complex or new or unsettled claims or legal theories. The resolution of such matter or matters, if unfavorable, could have a material adverse effect on our operating results.

While we maintain insurance that we believe is appropriate relative to our business and the potential claims and liabilities to which we may be exposed, we cannot be assured that insurance will cover many of our potential liabilities or losses, particularly any regulatory liabilities or penalties which are generally not covered by insurance. In addition, insurance coverage may become more costly and require higher deductibles or co-insurance arrangements, and may not be available to cover certain potential claims or liabilities we may incur. Should this occur, it would expose us to greater non-insured losses, increase our expenses and negatively impact our earnings.



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***Changes in tax laws, exposures to additional income tax liabilities or limitations on tax attributes currently available to the Company could have a material impact on our financial condition, results of operations and liquidity.***

We are subject to federal and state income taxes in the United States. Tax authorities may disagree with certain positions we have taken and assess additional taxes. We regularly assess the likely outcomes of audits in order to determine the appropriateness of our tax provision. However, there can be no assurance that we will accurately predict the outcomes of these audits, and the actual outcomes of these audits could be unfavorable. Results of tax audits, changes in tax laws or tax rulings could have a material adverse impact on the Company's financial condition, results of operations and liquidity.

Our ability to utilize tax attributes currently available to us is limited under section 382 of the Internal Revenue Code of 1986, as amended ( Section 382 ). Section 382 imposes annual limitations on the amount of net operating loss carryforwards and other tax attributes that can be used to offset taxable income in the event an ownership change has occurred. An ownership change, as defined by Section 382, is triggered by substantial changes in the ownership of our outstanding stock, which are generally outside of our control. We currently have limitations as a result of Section 382 and could experience additional, more restrictive limitations in the event another ownership change occurs.

Our ability to use net operating loss carryforwards and other tax attributes available to us will be dependent on our ability to generate taxable income. At December 31, 2009, we have a valuation allowance of \$108.8 million on our deferred tax assets of \$115.8 million as, in our judgment, it is more likely than not that this amount of our deferred tax assets will not be realized.

***Misconduct by our employees, sub-advisors and distribution partners is difficult to detect and deter and could harm our business, results of operations or financial condition.***

Misconduct by our employees, sub-advisors or distribution partners could be determined to be violations of law resulting in regulatory sanctions or could result in serious reputational or financial harm. Misconduct can occur and could include:

binding us to transactions that exceed authorized limits;

unauthorized or unsuccessful activities resulting in unknown and unmanaged risks or losses;

improperly using or disclosing confidential information;

recommending or executing transactions that are not suitable;

engaging in fraudulent or otherwise improper activity;

engaging in unauthorized or excessive trading to the detriment of customers; or

otherwise not complying with laws or our control or compliance procedures.

We cannot always deter misconduct by our employees, sub-advisors and distribution partners, and the precautions we take to prevent and detect this activity may not be effective in all cases. Prevention and detection of misconduct among our sub-advisors and distribution partners, who are not employees of the Company, may be difficult. Misconduct by our employees, sub-advisors or distribution partners may have a material adverse effect on our business and operating results.

***We are continuing to develop our own risk management processes and procedures, which may not be effective against all of our business risks.***

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As a standalone public company, we continue to develop our risk management processes and procedures. However, these processes and procedures may not be fully effective to address and guard against a constantly changing and highly complex regulatory environment, and we cannot be assured that our risk management approach will fully mitigate our exposure to all types of significant risk.

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*We, in our retail business, distribute through intermediary channels and a loss of key distribution relationships could reduce our revenues and earnings.*

Intermediary distribution channels account for a substantial portion of our sales and of our assets under management. Our success in our intermediary distribution channel depends upon our continuing to maintain strong relationships with our third-party intermediaries and with our other strategic distribution relationships. Any material reduction in these distribution relationships would impact the sales of our products, our assets under management and our revenues. In addition, these intermediaries generally offer their customers a significant array of investment products which are in addition to, and which compete with, our own investment products, and there is no assurance that these intermediaries or their customers may not favor competing investment products over those we offer. Further, consolidation in the financial services industry, of which our distribution channels are a part, could negatively impact future relationships and distribution channels.

*Any failure to comply with established client investment guidelines or other contractual requirements could result in claims from clients and regulatory sanctions.*

The agreements under which we manage assets often have established investment guidelines or other contractual requirements that we are required to comply with in providing our investment management services. Any allegation of a failure to comply with these guidelines or other requirements could result in client claims, withdrawal of assets, and potential regulatory sanctions, any of which may negatively impact our revenues and earnings.

*We could experience temporary business interruptions in our technology infrastructure and thereby incur substantial additional costs.*

Our technology systems are critical to our operations and any failure or interruption of those systems or of our operations, whether resulting from technology or infrastructure breakdowns or defects or due to external causes such as fire or power disruptions, could result in financial loss and impact our reputation, growth and prospects.

### **Risk Factors Relating to Our Common Stock**

*There may continue to be little institutional interest in, research analyst coverage of and trading volume of our common stock, which could lead to our stock trading at prices that are significantly lower than what might be expected of a seasoned issuer.*

Public companies with relatively small market capitalizations such as we have often have difficulty generating institutional interest or trading volume in their stock. This illiquidity can result in relative price discounts as compared to industry peers or to the stock's inherent value. It can also result in limited research analyst coverage, the absence of which makes it difficult for a company to establish and hold a market following. Accordingly, our size could lead to our stock trading at prices that are significantly lower than our estimate of its inherent value.

From time to time, the market price and volume of shares traded of companies in the investment management industry experience periods of significant volatility. Company-specific issues and general developments in the investment management industry or the economy may cause this volatility. The market price of our common stock may fluctuate in response to a number of events and factors, including:

general economic, market and political conditions;

quarterly variations in our results of operations or financial position or the fact that our results of operations or financial position could be below the expectations of the public market, analysts or investors;

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changes in financial estimates and recommendations by securities analysts;

operating and market price performance of other companies that investors may deem comparable;

press releases or publicity relating to us or our competitors or relating to trends in our markets;

large purchases or sales of our common stock by significant shareholders; and

purchases or sales of our common stock by insiders.

In addition, broad market and industry fluctuations, as well as investor perception and the depth and liquidity of the market for our common stock, may adversely affect the trading price of our common stock, regardless of our actual operating performance.

***Our rights plan and applicable laws may discourage takeovers and business combinations that our stockholders might consider to be in their best interests.***

We are subject to the provisions of Delaware law described below regarding business combinations with interested stockholders.

Section 203 of the Delaware General Corporation Law applies to a broad range of business combinations between a Delaware corporation and an interested stockholder. The Delaware law definition of a business combination includes mergers, sales of assets, issuances of voting stock and certain other transactions. An interested stockholder is defined as any person who owns, directly or indirectly, 15% or more of the outstanding voting stock of a corporation.

Section 203 prohibits a corporation from engaging in a business combination with an interested stockholder for a period of three years following the date on which the stockholder became an interested stockholder, unless:

the board of directors approved the business combination before the stockholder became an interested stockholder, or the board of directors approved the transaction that resulted in the stockholder becoming an interested stockholder;

upon completion of the transaction which resulted in the stockholder becoming an interested stockholder, such stockholder owned at least 85% of the voting stock outstanding when the transaction began other than shares held by directors who are also officers and other than shares held by certain employee stock plans; or

the board of directors approved the business combination after the stockholder became an interested stockholder and the business combination was approved at a meeting by at least two-thirds of the outstanding voting stock not owned by such stockholder.

In addition, under our stockholders' rights agreement, if any person or group (other than Bank of Montreal and its controlled affiliates) acquires, or begins a tender or exchange offer that could result in such person acquiring, 15% or more of our common stock without approval by our board under specified circumstances, our other stockholders will have the right to purchase shares of our common stock, or shares of the acquiring company, at a substantial discount to the public market price. The provisions of Section 203 of the Delaware General Corporation Law and our stockholders' rights agreement may discourage takeovers and business combinations that our stockholders might consider to be in their best interests.

***We may not pay dividends on our common stock***

In our limited history as a standalone publicly traded company, we have not declared any common stock dividends. All decisions regarding the declaration and payment of dividends will be evaluated from time to time in light of our financial condition, earnings, growth prospects, other uses of cash, funding requirements, applicable law and other factors our board of directors deems relevant. There can be no assurance that we

will pay any common stock dividends in the future.

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**Risk Factors Relating to the Series B Convertible Preferred Stock Investment**

*The agreements the Company entered into in connection with the Series B Convertible Preferred Stock investment made by Harris Bankcorp contains restrictions that could limit our ability to obtain additional equity financing.*

The approval of the holders of our Series B Convertible Preferred Stock is required to effect certain significant issuances of equity securities of the Company or any of its controlled subsidiaries. Such required approval may restrict our ability to carry out our business objectives, take advantage of opportunities such as acquisitions that could supplement or grow our business and could have a material adverse effect on our ability to service our debt and operate our business.

*The voting power of the holders of our Series B Convertible Preferred Stock may discourage third party acquisitions of the Company at a premium.*

We are required to obtain the approval of holders of our Series B Convertible Preferred Stock for any merger, consolidation, acquisition, business combination, sale of all or substantially all of the assets of the Company or its subsidiaries, or any similar transaction or pledge of assets, in certain circumstances until December 31, 2011. This may have the effect of discouraging offers to acquire control of the Company and may preclude holders of Company common stock from receiving any premium above market price for their shares that may otherwise be offered in connection with any attempt to acquire control of the Company.

For further information, restrictions and obligations concerning our Series B Convertible Preferred Stock, see Management's Discussion and Analysis of Financial Condition and Results of Operations Series B Convertible Preferred Stock .

*The additional financing right of the holders of our Series B Convertible Preferred Stock may increase the costs of any future equity financing.*

Harris Bankcorp has an additional financing right until December 31, 2010 as long as it, or any of its affiliates, holds at least 10% of our outstanding common stock (including shares issuable on the conversion of our Series B Convertible Preferred Stock). If the Company determines to raise equity financing for the purpose of financing our business (other than shares issued under any employee benefit plan, in connection with certain acquisitions of other companies or pursuant to any stock split, stock dividend or recapitalization by the Company), we must offer Harris Bankcorp the initial opportunity to provide such financing up to a principal amount of \$25 million of newly issued preferred stock. Any newly issued preferred stock would have the same terms as the Series B Convertible Preferred Stock, except with respect to the conversion price, which would be the lower of the current conversion price of the Series B Convertible Preferred Stock or the current per share volume-weighted average price of our common stock over the ten trading days immediately prior to the consummation of this additional financing right. As a result, should Harris Bankcorp choose to exercise the right, it could cause the financing to be more expensive than financing we might otherwise obtain.

*Our outstanding Series B Convertible Preferred Stock may be converted into common stock, in the future, which would increase the number of shares eligible for future resale in the public market and result in dilution to our stockholders. This might have an adverse effect on the market price of the common stock.*

As of December 31, 2009, 45,000 shares of our Series B Convertible Preferred Stock were outstanding. Each outstanding share of Series B Convertible Preferred Stock is currently convertible into 38.3139 shares of common stock, subject to customary anti-dilution adjustments.

Holders of Series B Convertible Preferred Stock may convert any or all of their shares into shares of common stock of the Company at any time. In the event that the holders of a majority of the outstanding Series B Convertible Preferred Stock approve a conversion of the Series B Convertible Preferred Stock, all of the shares

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of Series B Convertible Preferred Stock will be converted automatically into shares of common stock of the Company. In the event that the closing price of the common stock of the Company exceeds 175% of the applicable conversion price for at least twenty trading-days out of the previous thirty trading-days, the Company may elect to cause each share of Series B Convertible Preferred Stock to be converted into shares of common stock of the Company at the conversion rate in effect. However, holders of Series B Convertible Preferred Stock may elect to retain their shares of Series B Convertible Preferred Stock and forfeit their right to thereafter participate in any dividends paid on our common stock.

To the extent shares of Series B Convertible Preferred Stock are converted, additional shares of our common stock will be issued, which may result in dilution to our stockholders, and may increase the number of shares eligible for resale in the public market if such shares of common stock are registered or sold pursuant to an exemption from registration under the Securities Act. Sales of substantial numbers of such shares in the public market could adversely affect the market price of our common stock.

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**SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS**

This Annual Report contains statements, including under the captions Business, Risk Factors, and Management's Discussion and Analysis of Financial Condition and Results of Operations, that are, or may be considered to be, forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995, as amended, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. All statements that are not historical facts, including statements about our beliefs or expectations, are forward-looking statements. These statements may be identified by such forward-looking terminology as expect, estimate, plan, intend, believe, anticipate, may, similar statements or variations of such terms.

Our forward-looking statements are based on a series of expectations, assumptions and projections about our Company, are not guarantees of future results or performance, and involve substantial risks and uncertainty, including assumptions and projections concerning our assets under management, net cash inflows and outflows, operating cash flows, and future credit facilities, for all forward periods. All of our forward-looking statements are as of the date of this Annual Report only.

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

Our business and our forward-looking statements involve substantial known and unknown risks and uncertainties, including those discussed under Risk Factors, and Management's Discussion and Analysis of Financial Condition and Results of Operations in this Annual Report, as well as the following risks and uncertainties: (a) the effects of adverse market and economic developments on all aspects of our business; (b) any poor relative investment performance of our investment management strategies and any resulting outflows of assets; (c) any lack of availability of additional financing, as may be needed, on satisfactory terms or at all; (d) any inadequate performance of third-party relationships; (e) the withdrawal of assets from under our management; (f) our ability to attract and retain key personnel in a competitive environment; (g) the ability of independent trustees of our mutual funds and closed-end funds, and other clients to terminate their relationships with us; (h) the possibility that our goodwill or intangible assets could become impaired, requiring a charge to earnings; (i) the strong competition we face in our business; (j) potential adverse regulatory and legal developments; (k) the difficulty of detecting misconduct by our employees, sub-advisors and distribution partners; (l) changes in accounting standards; (m) the ability to satisfy the financial covenants under existing debt agreements; and (n) certain other risks and uncertainties described in this Annual Report or in any of our other filings with the Securities and Exchange Commission (SEC).

An occurrence of, or any material adverse change in, one or more of the risk factors or risks and uncertainties referred to in this Annual Report or included in our other periodic reports filed with the SEC could materially and adversely affect our operations, financial results, cash flows, prospects, and liquidity.

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



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**Item 1B. Unresolved Staff Comments.**

None.

**Item 2. Properties.**

Our principal offices are located at 100 Pearl St., 9th Floor, Hartford, CT 06103. In addition, our affiliated managers lease office space in Illinois, California and New York. We believe our office facilities are suitable and adequate for our business as it is presently conducted. Given the service nature of our business and the fact that we do not own real property, we do not anticipate that compliance with federal, state and local provisions regarding the discharge of materials into the environment, or otherwise relating to the protection of the environment, will have a material effect upon our capital expendit