

## Section 1: 10-Q (10-Q)

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2014

OR

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

for the transition period from to

Commission File Number 001-15253



**JANUS CAPITAL**  
Group

**Janus Capital Group Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**43-1804048**

(I.R.S. Employer Identification No.)

**151 Detroit Street, Denver, Colorado**  
(Address of principal executive offices)

**80206**  
(Zip Code)

**(303) 333-3863**

(Registrant's telephone number, including area code)

**Not applicable**

(Former name, former address and former fiscal year, if changed since last report)

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 Company was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this

chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

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

As of October 17, 2014, there were 185,995,017 shares of the Company's common stock, \$0.01 par value per share, issued and outstanding.

## PART I — FINANCIAL INFORMATION

### Item 1. Financial Statements

#### JANUS CAPITAL GROUP INC.

#### CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED) (Dollars in Millions, Except Share Data)

	<u>September 30, 2014</u>	<u>December 31, 2013</u>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 434.9	\$ 344.5
Investment securities	341.2	485.5
Accounts receivable	116.2	108.8
Other current assets	51.4	52.0
Total current assets	<u>943.7</u>	<u>990.8</u>
<b>Other assets:</b>		
Property and equipment, net	29.8	29.9
Intangible assets, net	1,222.7	1,230.1
Goodwill	488.2	488.2
Other non-current assets	7.6	8.3
Total assets	<u>\$ 2,692.0</u>	<u>\$ 2,747.3</u>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 8.1	\$ 4.1
Accrued compensation and benefits	113.6	122.7
Current portion of long-term debt	—	96.9
Other accrued liabilities	53.9	78.0
Total current liabilities	<u>175.6</u>	<u>301.7</u>
<b>Other liabilities:</b>		
Long-term debt	449.8	447.7
Deferred income taxes, net	463.0	447.7
Other non-current liabilities	30.9	32.4
Total liabilities	<u>1,119.3</u>	<u>1,229.5</u>

Commitments and contingencies

Redeemable noncontrolling interests	4.8	7.3
<b>Equity:</b>		
Preferred stock (\$1.00 par, 10,000,000 shares authorized, none issued)	—	—
Common stock (\$0.01 par, 1,000,000,000 shares authorized; 265,500,708 and 265,500,708 shares issued, respectively; 186,386,184 and 188,603,875 shares outstanding, respectively)	1.9	1.9
Retained earnings	1,523.3	1,496.0
Accumulated other comprehensive loss, net of tax	(1.1)	(1.1)
Total JCG shareholders' equity	1,524.1	1,496.8
Noncontrolling interests	43.8	13.7
Total equity	1,567.9	1,510.5
Total liabilities and equity	<u>\$ 2,692.0</u>	<u>\$ 2,747.3</u>

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

**JANUS CAPITAL GROUP INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**  
(Dollars in Millions, Except per Share Data)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
<b>Revenues:</b>				
Investment management fees	\$ 213.3	\$ 204.0	\$ 632.0	\$ 605.0
Performance fees	(14.0)	(22.0)	(47.2)	(63.7)
Shareowner servicing fees and other	37.7	35.7	113.6	106.4
Total revenue	<u>237.0</u>	<u>217.7</u>	<u>698.4</u>	<u>647.7</u>
<b>Operating expenses:</b>				
Employee compensation and benefits	82.2	73.3	240.5	222.0
Long-term incentive compensation	11.6	15.8	36.1	45.3
Marketing and advertising	4.1	4.6	13.6	14.3
Distribution	33.2	30.8	98.5	94.0
Depreciation and amortization	6.2	7.1	19.0	21.9
General, administrative and occupancy	28.1	27.1	81.5	78.1
Total operating expenses	<u>165.4</u>	<u>158.7</u>	<u>489.2</u>	<u>475.6</u>
<b>Operating income</b>	71.6	59.0	209.2	172.1
Interest expense	(7.6)	(9.5)	(25.9)	(31.7)
Investment gains, net	1.3	7.9	1.1	6.4
Other (expense) income, net	(1.1)	0.8	(0.1)	1.8
Loss on early extinguishment of debt	—	(0.9)	—	(13.5)
Income before taxes	<u>64.2</u>	<u>57.3</u>	<u>184.3</u>	<u>135.1</u>
Income tax provision	(23.6)	(21.7)	(75.7)	(53.0)
Net income	40.6	35.6	108.6	82.1
Noncontrolling interests	0.3	(3.0)	(0.9)	(5.7)
<b>Net income attributable to JCG</b>	<u>\$ 40.9</u>	<u>\$ 32.6</u>	<u>\$ 107.7</u>	<u>\$ 76.4</u>
<b>Earnings per share attributable to JCG common shareholders:</b>				
Basic	\$ 0.22	\$ 0.18	\$ 0.57	\$ 0.41
Diluted	\$ 0.22	\$ 0.17	\$ 0.57	\$ 0.41
<b>Other comprehensive loss, net of tax:</b>				
Net unrealized gain on available-for-sale securities	\$ —	\$ 0.7	\$ 2.3	\$ 0.6

Reclassifications for items included in net income	(1.8)	(0.7)	(2.3)	(2.4)
Total other comprehensive loss, net of tax	<u>(1.8)</u>	<u>—</u>	<u>—</u>	<u>(1.8)</u>
Comprehensive income	38.8	35.6	108.6	80.3
Comprehensive loss (income) attributable to noncontrolling interests	0.3	(3.0)	(0.9)	(5.7)
<b>Comprehensive income attributable to JCG</b>	<u>\$ 39.1</u>	<u>\$ 32.6</u>	<u>\$ 107.7</u>	<u>\$ 74.6</u>

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

**JANUS CAPITAL GROUP INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**  
(Dollars in Millions)

	Nine months ended September 30,	
	2014	2013
<b>CASH FLOWS PROVIDED BY (USED FOR):</b>		
<b>Operating activities:</b>		
Net income	\$ 108.6	\$ 82.1
Adjustments to net income:		
Depreciation and amortization	19.0	21.9
Deferred income taxes	29.2	13.5
Amortization of stock-based compensation	11.7	18.5
Investment gains, net	(1.1)	(6.4)
Amortization of debt discounts, premiums and deferred issuance costs	7.0	7.9
Loss on early extinguishment of debt	—	13.5
Payment of deferred commissions, net	(4.5)	(3.3)
Other, net	0.2	(1.0)
Changes in working capital items:		
Accounts receivable	(7.3)	2.6
Other current assets	(29.0)	(6.6)
Accounts payable and accrued compensation payable	8.0	(5.1)
Other current and non-current liabilities	(11.8)	(5.6)
Net operating activities	<u>130.0</u>	<u>132.0</u>
<b>Investing activities:</b>		
Purchase of property and equipment	(7.5)	(5.0)
Purchases and settlements of investment securities	(159.4)	(167.8)
Proceeds from sales, settlements and maturities of investment securities	331.5	112.2
Net investing activities	<u>164.6</u>	<u>(60.6)</u>
<b>Financing activities:</b>		
Repayment of long-term debt	(98.9)	(8.9)
Proceeds from issuance of stock warrants	—	10.5
Purchase of convertible note hedge	—	(16.1)
Debt issuance costs	—	(3.3)
Purchase of noncontrolling interests	(1.5)	(34.1)
Distributions to noncontrolling interests	(1.6)	(5.9)
Proceeds from stock option exercises and employee stock purchases	3.7	7.1
Excess tax benefit from equity-based compensation	1.0	1.6
Principal payments under capital lease obligations	(1.0)	(0.8)
Repurchase of common stock	(62.2)	(22.2)
Dividends paid to JCG shareholders	(43.6)	(26.5)
Net financing activities	<u>(204.1)</u>	<u>(98.6)</u>
<b>Cash and cash equivalents:</b>		

Effect of foreign exchange rate changes	(0.1)	(1.6)
Net change	90.4	(28.8)
At beginning of period	344.5	387.0
At end of period	<u>\$ 434.9</u>	<u>\$ 358.2</u>

**Supplemental cash flow information:**

Cash paid for interest	\$ 15.6	\$ 18.4
Cash paid for income taxes, net of refunds	\$ 74.1	\$ 46.2

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

**JANUS CAPITAL GROUP INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)**  
(Amounts in Millions)

	<u>Shares</u>	<u>Common stock</u>	<u>Retained earnings</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Nonredeemable noncontrolling interests</u>	<u>Total equity</u>
<b>Balance at December 31, 2012</b>	187.5	\$ 1.9	\$ 1,415.4	\$ 0.6	\$ 17.2	\$ 1,435.1
Net income	—	—	76.4	—	0.8	77.2
Other comprehensive loss	—	—	—	(1.8)	—	(1.8)
Amortization of stock-based compensation	—	—	16.1	—	1.7	17.8
Issuance and forfeitures of restricted stock awards, net	3.0	—	—	—	—	—
Stock option exercises and employee stock purchases	1.3	—	7.1	—	—	7.1
Convertible senior notes issuance	—	—	14.7	—	—	14.7
Extinguishment of convertible senior notes	—	—	(2.0)	—	—	(2.0)
Convertible senior note hedge issuance	—	—	(16.1)	—	—	(16.1)
Stock warrants issuance	—	—	10.5	—	—	10.5
Changes in noncontrolling interests in consolidated investment products	—	—	—	—	21.5	21.5
Distributions to noncontrolling interests	—	—	—	—	(1.6)	(1.6)
Change in fair value of redeemable noncontrolling interests	—	—	1.7	—	—	1.7
Vesting of nonredeemable noncontrolling interests	—	—	—	—	(1.2)	(1.2)
Purchase of noncontrolling interests	—	—	—	—	(0.3)	(0.3)
Repurchase of common stock	(2.5)	—	(22.2)	—	—	(22.2)
Dividends paid to JCG shareholders	—	—	(26.5)	—	—	(26.5)
<b>Balance at September 30, 2013</b>	<u>189.3</u>	<u>\$ 1.9</u>	<u>\$ 1,475.1</u>	<u>\$ (1.2)</u>	<u>\$ 38.1</u>	<u>\$ 1,513.9</u>
<b>Balance at December 31, 2013</b>	188.6	\$ 1.9	\$ 1,496.0	\$ (1.1)	\$ 13.7	\$ 1,510.5
Net income	—	—	107.7	—	0.7	108.4
Amortization of stock-based compensation	—	—	20.1	—	1.2	21.3
Issuance and forfeitures of restricted stock awards, net	2.6	—	—	—	—	—

Stock option exercises and employee stock purchases	0.5	—	3.7	—	—	3.7
Changes in noncontrolling interests in consolidated investment products	—	—	—	—	30.0	30.0
Distributions to noncontrolling interests	—	—	—	—	(0.9)	(0.9)
Change in fair value of redeemable noncontrolling interests	—	—	1.6	—	—	1.6
Purchase of noncontrolling interests	—	—	—	—	(0.9)	(0.9)
Repurchase of common stock	(5.3)	—	(62.2)	—	—	(62.2)
Dividends paid to JCG shareholders	—	—	(43.6)	—	—	(43.6)
<b>Balance at September 30, 2014</b>	<u>186.4</u>	<u>\$ 1.9</u>	<u>\$ 1,523.3</u>	<u>\$ (1.1)</u>	<u>\$ 43.8</u>	<u>\$ 1,567.9</u>

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

## JANUS CAPITAL GROUP INC.

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

#### Note 1 — Basis of Presentation

In the opinion of Janus Capital Group Inc. (collectively, “JCG” or “the Company”) management, the accompanying interim condensed consolidated financial statements contain all adjustments necessary to fairly present the financial position, results of operations and cash flows of JCG in accordance with accounting principles generally accepted in the United States of America (“GAAP”). All such adjustments are of a normal recurring nature. Such interim condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Events subsequent to the balance sheet date have been evaluated for inclusion in the accompanying condensed consolidated financial statements through the issuance date and the Company has determined that there were no subsequent events that require disclosure other than the items set forth in Notes 7 and 12. The Company operates one business segment, its Investment Management Operations. These interim condensed consolidated financial statements should be read in conjunction with JCG’s Annual Report on Form 10-K for the year ended December 31, 2013.

The accompanying interim condensed consolidated financial statements have been prepared on a consistent basis with the accounting policies described in Note 2 to the consolidated financial statements that are presented in JCG’s Annual Report on Form 10-K for the year ended December 31, 2013.

#### Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued a new revenue recognition standard. The standard’s core principle is that a company will recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the standard specifies the accounting for certain costs to obtain or fulfill a contract with a customer and expands disclosure requirements for revenue recognition. The standard is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company is evaluating the effect of adopting this new accounting standard.

#### Note 2 — Investment Securities

JCG’s investment securities as of September 30, 2014, and December 31, 2013, are summarized as follows (in millions):

	<u>September 30, 2014</u>	<u>December 31, 2013</u>
Trading securities:		
Seeded investment products	\$ 315.9	\$ 312.9

Investments in advised mutual funds	4.3	45.5
Investments related to deferred compensation plans	12.5	14.9
Total trading securities	<u>332.7</u>	<u>373.3</u>
Available-for-sale securities:		
Seeded investment products	8.5	10.7
Debt securities	—	101.5
Total available-for-sale securities	<u>8.5</u>	<u>112.2</u>
Total investment securities	<u>\$ 341.2</u>	<u>\$ 485.5</u>

### Trading Securities

Seeded investment products represented \$247.2 million in 17 mutual funds advised by the Company and \$68.7 million in 30 separately managed accounts at September 30, 2014. Seeded investment products

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represented \$230.0 million in 12 mutual funds advised by the Company and \$82.9 million in 28 separately managed accounts at December 31, 2013.

The Company recognized \$4.7 million and \$14.5 million of net investment gains related to trading securities still held as of September 30, 2014 and 2013, respectively.

### Available-for-Sale Securities

Seeded investment products advised by the Company designated as available-for-sale securities represented \$8.5 million held in 38 mutual funds and \$10.7 million held in 34 mutual funds at September 30, 2014, and December 31, 2013, respectively.

During the three and nine months ended September 30, 2014, one debt security with a principal value of \$12.0 million and nine debt securities with an aggregate principal value of \$100.0 million matured, respectively.

The following is a summary of available-for-sale securities at September 30, 2014, and December 31, 2013 (in millions):

	September 30, 2014					
	Cost	Gross unrealized investment		Foreign currency translation	Estimated fair value	Carrying value
		Gains	Losses			
Available-for-sale securities:						
Seeded investment products	\$ 8.2	\$ 0.5	\$ (0.1)	\$ (0.1)	\$ 8.5	\$ 8.5
	December 31, 2013					
	Cost	Gross unrealized investment		Foreign currency translation	Estimated fair value	Carrying value
		Gains	Losses			
Available-for-sale securities:						
Seeded investment products	\$ 9.9	\$ 0.9	\$ —	\$ (0.1)	\$ 10.7	\$ 10.7
Debt securities	101.6	—	(0.1)	—	101.5	101.5
Total available-for-sale securities	<u>\$ 111.5</u>	<u>\$ 0.9</u>	<u>\$ (0.1)</u>	<u>\$ (0.1)</u>	<u>\$ 112.2</u>	<u>\$ 112.2</u>

The Company reviewed the gross unrealized losses on available-for-sale securities and determined that the losses were not other-than-temporary. No other-than-temporary impairment charges were recognized in the nine months ended September 30, 2014 or 2013.

Realized gains and losses related to the disposition of seeded investment products classified as available-for-sale securities were recognized within investment gains, net on JCG's Condensed Consolidated Statements of Comprehensive Income. The following is a summary of realized gains and losses upon disposition of seeded investment products classified as available-for-sale securities for the three and nine months ended September 30, 2014 and 2013 (in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Realized gains	\$ 2.6	\$ 1.8	\$ 2.8	\$ 2.6
Realized losses	—	(0.5)	(0.1)	(1.1)

Net realized gains	<u>\$ 2.6</u>	<u>\$ 1.3</u>	<u>\$ 2.7</u>	<u>\$ 1.5</u>
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### Derivative Instruments

The Company maintains an economic hedge program that uses derivative instruments to hedge against market volatility of certain seed investments. Fluctuations in equity markets, debt markets and foreign currency markets are hedged by using index swaps, index futures and foreign currency forward contracts.

JCG was party to the following derivative instruments as of September 30, 2014, and December 31, 2013:

	<u>September 30, 2014</u>		<u>December 31, 2013</u>	
	<u>Number of contracts</u>	<u>Notional value (in millions)</u>	<u>Number of contracts</u>	<u>Notional value (in millions)</u>
Index swaps	4	\$ 55.5	6	\$ 184.3
Index futures	6	\$ 89.8	6	\$ 66.6
Foreign currency forward contracts	6	\$ 3.2	6	\$ 93.6

The above derivative instruments are not designated as hedges for accounting purposes. Changes in fair value of the index swaps and index futures are recognized in investment gains, net on JCG's Condensed Consolidated Statements of Comprehensive Income while changes in the fair value of the foreign currency forward contracts are recognized in other (expense) income, net on JCG's Condensed Consolidated Statements of Comprehensive Income.

Index swaps are subject to a master netting arrangement. The values of the individual index swap contracts, including any associated cash collateral, are combined and are included on a net basis in other current assets on JCG's Condensed Consolidated Balance Sheets. Index futures are also subject to a master netting arrangement and are presented in the same manner as the index swaps. Foreign currency forward contracts are not subject to a master netting arrangement, and as such, fair values of individual contracts are not netted and are included separately within either other current assets or other accrued liabilities on JCG's Condensed Consolidated Balance Sheets.

The Company posted \$2.1 million and \$4.8 million in cash collateral with the counterparty of the index futures as of September 30, 2014, and December 31, 2013, respectively. The cash collateral is included in other current assets on JCG's Condensed Consolidated Balance Sheets.

The following tables illustrate the effect of offsetting derivative instruments on JCG's Condensed Consolidated Balance Sheets as of September 30, 2014, and December 31, 2013 (in millions):

	<u>September 30, 2014</u>		
	<u>Gross amounts</u>	<u>Gross amounts offset</u>	<u>Net amounts</u>
Assets:			
Index futures	\$ 0.9	\$ —	\$ 0.9
	<u>December 31, 2013</u>		
	<u>Gross amounts</u>	<u>Gross amounts offset</u>	<u>Net amounts</u>
Assets:			
Index swaps	\$ 0.1	\$ (0.1)	\$ —
Index futures	0.9	(0.4)	0.5
Total	<u>\$ 1.0</u>	<u>\$ (0.5)</u>	<u>\$ 0.5</u>
Liabilities:			
Index swaps	\$ 1.5	\$ (1.5)	\$ —
Index futures	0.4	(0.4)	—
Foreign currency forward contracts	1.5	—	1.5
Total	<u>\$ 3.4</u>	<u>\$ (1.9)</u>	<u>\$ 1.5</u>

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JCG recognized the following net gains (losses) on hedged seed investments and net gains (losses) on associated index futures and index swaps for the three and nine months ended September 30, 2014 and 2013 (in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	Hedged seed investments classified as trading securities	\$ (2.1)	\$ 15.4	\$ 4.4
Hedged seed investments classified as available-for-sale securities	—	0.6	3.2	0.6
Total hedged seed investments	(2.1)	16.0	7.6	19.2
Index futures	(0.8)	(13.7)	(5.2)	(20.5)
Index swaps	1.7	(0.7)	(3.1)	(2.1)
Total	\$ (1.2)	\$ 1.6	\$ (0.7)	\$ (3.4)

JCG recognized the following net (losses) gains on hedged seed investments denominated in a foreign currency and net gains (losses) on associated foreign currency forward contracts for the three and nine months ended September 30, 2014 and 2013 (in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	Net (losses) gains in net income related to:			
Foreign currency translation	\$ (0.7)	\$ 3.4	\$ (1.7)	\$ 2.7
Foreign currency forward contracts	0.4	(3.7)	1.2	(2.9)
Total	\$ (0.3)	\$ (0.3)	\$ (0.5)	\$ (0.2)

#### Investment Gains, Net

Investment gains, net on JCG's Condensed Consolidated Statements of Comprehensive Income included the following for the three and nine months ended September 30, 2014 and 2013 (in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	Seeded investment products	\$ 1.0	\$ 17.4	\$ 8.9
Noncontrolling interests in seeded investment products	(0.6)	2.0	(0.2)	2.1
Investments in advised mutual funds	(0.1)	2.2	(0.1)	7.0
Index swaps and index futures	0.9	(14.4)	(8.3)	(22.6)
Economic hedge for deferred compensation plans	0.1	0.7	0.8	1.9
Investment gains, net	\$ 1.3	\$ 7.9	\$ 1.1	\$ 6.4

#### Purchases, Sales, Settlements and Maturities

Cash flows related to investment securities for the three and nine months ended September 30, 2014 and 2013, are summarized as follows (in millions):

	Three months ended September 30,			
	2014		2013	
	Purchases and settlements	Sales, settlements and maturities	Purchases and settlements	Sales, settlements and maturities
Trading securities	\$ (106.0)	\$ 27.3	\$ (2.1)	\$ 2.2
Available-for-sale securities	—	76.9	(0.1)	8.1
Derivative instruments:				
Seed capital economic hedge	(3.6)	5.3	(19.2)	8.0
Total cash flows	\$ (109.6)	\$ 109.5	\$ (21.4)	\$ 18.3

  

	Nine months ended September 30,			
	2014		2013	
	Purchases	Sales,	Purchases	Sales,

	and settlements	settlements and maturities	and settlements	settlements and maturities
Trading securities	\$ (138.1)	\$ 143.5	\$ (113.5)	\$ 62.5
Available-for-sale securities	(0.2)	174.8	(0.4)	18.2
Derivative instruments:				
Seed capital economic hedge	(21.1)	13.2	(53.9)	31.5
Total cash flows	<u>\$ (159.4)</u>	<u>\$ 331.5</u>	<u>\$ (167.8)</u>	<u>\$ 112.2</u>

During the third quarter 2014, seeding of investment products included a \$100.0 million investment in the Global Unconstrained Bond strategy. The investment included \$48.0 million and \$52.0 million allocated to JCG's domestic and international trusts, respectively.

### Note 3 — Fair Value Measurements

The following table presents assets, liabilities and redeemable noncontrolling interests measured or disclosed at fair value on a recurring basis as of September 30, 2014 (in millions):

	Fair value measurements using:			Total
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
<b>Assets:</b>				
Cash equivalents	\$ —	\$ 275.9	\$ —	\$ 275.9
Index futures	0.9	—	—	0.9
Trading securities:				
Seeded investment products	159.5	156.4	—	315.9
Investments in advised mutual funds	4.3	—	—	4.3
Investments related to deferred compensation plans	12.5	—	—	12.5
Available-for-sale securities:				
Seeded investment products	8.5	—	—	8.5
Total investment securities	<u>184.8</u>	<u>156.4</u>	<u>—</u>	<u>341.2</u>
Total assets	<u>\$ 185.7</u>	<u>\$ 432.3</u>	<u>\$ —</u>	<u>\$ 618.0</u>
<b>Liabilities:</b>				
Long-term debt	\$ —	\$ 548.6	\$ —	\$ 548.6
Redeemable noncontrolling interests	\$ —	\$ —	\$ 4.8	\$ 4.8

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The following table presents assets, liabilities and redeemable noncontrolling interests measured or disclosed at fair value on a recurring basis as of December 31, 2013 (in millions):

	Fair value measurements using:			Total
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
<b>Assets:</b>				
Cash equivalents	\$ —	\$ 199.0	\$ —	\$ 199.0
Index swaps	—	0.1	—	0.1
Index futures	—	0.9	—	0.9
Trading securities:				
Seeded investment products	265.9	47.0	—	312.9
Investments in advised mutual funds	45.5	—	—	45.5
Investments related to deferred compensation plans	14.9	—	—	14.9
Available-for-sale securities:				
Seeded investment products	10.7	—	—	10.7
Debt securities	—	101.5	—	101.5
Total investment securities	<u>337.0</u>	<u>148.5</u>	<u>—</u>	<u>485.5</u>
Total assets				

	<u>\$ 337.0</u>	<u>\$ 348.5</u>	<u>\$ —</u>	<u>\$ 685.5</u>
Liabilities:				
Current portion of long-term debt	\$ —	\$ 101.3	\$ —	\$ 101.3
Long-term debt	—	532.5	—	532.5
Index swaps	—	1.5	—	1.5
Index futures	—	0.4	—	0.4
Foreign currency forward contracts	—	1.5	—	1.5
Total liabilities	<u>\$ —</u>	<u>\$ 637.2</u>	<u>\$ —</u>	<u>\$ 637.2</u>
Redeemable noncontrolling interests	\$ —	\$ —	\$ 7.3	\$ 7.3

JCG's Level 1 fair value measurements consist of trading securities and available-for-sale securities with quoted market prices in active markets. The majority of investment securities classified as Level 2 are debt securities with values derived from evaluated pricing by independent third-party providers. The underlying securities of mutual funds and separate accounts may be denominated in a foreign currency. In some cases, the closing price of such securities may be adjusted to capture the effects of any post-closing activity impacting the markets in which they trade. Security prices are adjusted based upon historical impacts for similar post-close activity. These adjustments result in the securities being classified as Level 2 and may also result in movements of securities between Level 1 and Level 2.

Transfers are recognized at the end of each reporting period. Transfers from Level 1 and Level 2 classifications for the nine months ended September 30, 2014 and 2013, are summarized as follows (in millions):

	<u>September 30,</u>	
	<u>2014</u>	<u>2013</u>
Transfers from Level 1 to Level 2	\$ 5.5	\$ —
Transfers from Level 2 to Level 1	\$ 0.4	\$ 13.4

JCG's Level 3 recurring fair value measurements represent redeemable noncontrolling interests in INTECH Investment Management LLC ("INTECH") as of September 30, 2014.

Redeemable noncontrolling interests in INTECH are measured at fair value on a quarterly basis or more frequently if events or circumstances indicate that a material change in the fair value of INTECH has occurred. The fair value of INTECH is determined using a relative value methodology that incorporates observable metrics from publicly traded peer companies as valuation comparables, and adjustments related to investment performance and changes in assets under management. The relative value analysis is prepared internally within JCG's finance organization by personnel with appropriate valuation experience and credentials. In preparing the analysis, JCG benchmarks valuation metrics such as multiples of earnings before interest expense, taxes, depreciation and amortization ("EBITDA") against current market observables and recent market transactions of a similar size and nature to ensure that the estimates are reasonable. The analysis is reviewed by senior JCG finance personnel and JCG's Chief Financial Officer. The analysis is also reviewed by the holders of the noncontrolling interests in INTECH. If the valuation is agreed to by both JCG and the holders of noncontrolling interests, JCG utilizes the analysis to value the redeemable noncontrolling interests.

Significant inputs related to the relative value analysis include INTECH's trailing twelve-month operating results, performance fees, investment performance and trends in assets under management. In addition, market trading comparables from a relevant publicly traded peer set are included to complete the relative valuation process. Publicly available comparables utilized for the third quarter 2014 valuation analysis ranged from approximately 8.0x to 13.0x EBITDA. Significant increases or decreases in historical INTECH operating results would result in a significantly higher or lower fair value measurement, respectively. Additionally, a significant increase or decrease in market trading comparables would result in a significantly higher or lower fair value measurement, respectively. Generally, any period-over-period change in INTECH performance or level of assets under management in isolation is accompanied by a directionally similar change in the fair value measurement.

Nonrecurring Level 3 fair value measurements include goodwill and intangible assets. JCG measures the fair value of goodwill and intangible assets using a discounted cash flow analysis that requires assumptions regarding projected future earnings and discount rates. Because of the significance of the unobservable inputs in the fair value measurements of these assets and liabilities, such measurements have been classified as Level 3.

The changes in fair value of JCG's redeemable noncontrolling interests, which are classified as recurring Level 3 fair value measurements, for the three and nine months ended September 30, 2014 and 2013, are as follows (in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Beginning of period fair value	\$ 4.6	\$ 40.3	\$ 7.3	\$ 42.9
Distributions	(0.2)	(0.1)	(0.7)	(4.3)
Current earnings	0.1	0.7	0.4	2.8
Purchase of redeemable noncontrolling interests	—	(33.8)	(0.6)	(33.8)
Vesting of noncontrolling interests	—	—	—	1.2
Change in fair value	0.3	—	(1.6)	(1.7)
End of period fair value	<u>\$ 4.8</u>	<u>\$ 7.1</u>	<u>\$ 4.8</u>	<u>\$ 7.1</u>

#### Note 4 — Debt

Debt at September 30, 2014, and December 31, 2013, consisted of the following (in millions):

	September 30, 2014		December 31, 2013	
	Carrying value	Fair value	Carrying value	Fair value
6.700% Senior Notes due 2017	\$ 344.4	\$ 384.3	\$ 344.4	\$ 383.7
0.750% Convertible Senior Notes due 2018	105.4	164.3	103.3	148.8
3.250% Convertible Senior Notes due 2014	—	—	58.0	61.8
6.119% Senior Notes due 2014	—	—	38.9	39.5
Total debt	<u>449.8</u>	<u>548.6</u>	<u>544.6</u>	<u>633.8</u>
Less: Current maturities	—	—	(96.9)	(101.3)
Total long-term debt	<u>\$ 449.8</u>	<u>\$ 548.6</u>	<u>\$ 447.7</u>	<u>\$ 532.5</u>

#### Fair Value of Debt

The fair value of debt was determined using broker quotes and any recent trading activity for each of the notes listed above, which are considered Level 2 inputs.

#### 6.119% Senior Notes due 2014

On April 15, 2014, the 6.119% Senior Notes due 2014 matured and JCG paid the principal balance of \$38.9 million with cash on hand.

#### 3.250% Convertible Senior Notes due 2014

On July 15, 2014, the 3.250% Convertible Senior Notes due 2014 matured and JCG paid the principal balance of \$60.0 million with cash on hand.

#### 0.750% Convertible Senior Notes due 2018

The initial conversion rate of the 0.750% Convertible Senior Notes due 2018 (“2018 Convertible Notes”) was 92.06 shares of JCG common stock per \$1,000 principal amount of the 2018 Convertible Notes, which is equivalent to an initial conversion price of approximately \$10.86 per share of common stock. The initial conversion rate was most recently adjusted during the third quarter 2014 when JCG paid a quarterly cash dividend of \$0.08 per share, which was greater than the quarterly dividend of \$0.07 per share at the time of issuance. As a result of the quarterly cash dividend paid on August 22, 2014, the conversion rate changed to 92.22 shares of JCG common stock per \$1,000 principal amount of 2018 Convertible Notes, equivalent to a conversion price of approximately \$10.84 per share of common stock.

Holder of the 2018 Convertible Notes may convert the notes early if the last reported sale price of JCG’s common stock is greater than or equal to \$14.10 per share of common stock for at least 20 trading days during a period of 30 trading days.

#### Convertible Note Hedge and Warrants

In connection with the 2018 Convertible Notes issuance in June 2013, JCG entered into convertible note hedge and warrant transactions which, in combination, are intended to reduce the potential for future dilution to existing shareholders by

effectively increasing the initial conversion price of the 2018 Convertible Notes to JCG from \$10.86 to \$12.60 per share of common stock.

The initial \$10.86 and \$12.60 per share of common stock exercise prices of the call options and warrants, respectively, were adjusted during the third quarter 2014 when JCG paid a quarterly cash dividend of \$0.08 per share. As a result of the quarterly cash dividend paid on August 22, 2014, which was greater than the quarterly dividend of \$0.07 per share at the time of issuance, the exercise price of the call options changed to \$10.84 per share of common stock and the exercise price of the warrants changed to \$12.58 per share of common stock.

### **Interest Rate Adjustment Covenant**

The 6.700% Senior Notes due 2017 are subject to an interest rate adjustment covenant that provides that the interest rate payable will increase by 25 basis points for each level that the Company's debt rating is decreased by Moody's Investor Services Inc. ("Moody's") from Baa3 or by Standard and Poor's Rating Service ("S&P") from BBB-, up to a maximum increase of 200 basis points. If the interest rate has been adjusted upward as a result of either Moody's or S&P decreasing its rating, then for each level of a subsequent rating increase, the interest payable will be decreased by 25 basis points, but in no event to a rate less than the interest rate payable on the date of issuance of the respective notes. The interest rate adjustment covenant will permanently terminate if the Company's debt ratings increase to Baa2 (or higher) by Moody's and BBB (or higher) by S&P, with a stable or positive outlook regardless of any subsequent decrease in the ratings by either or both rating agencies. On March 18, 2014, S&P reaffirmed JCG's credit rating of BBB-, with a negative outlook. On August 27, 2014, Moody's reaffirmed JCG's credit rating of Baa3, with a stable outlook.

### **Credit Facility**

At September 30, 2014, JCG had a \$200 million, unsecured, revolving credit facility ("the Credit Facility") with JPMorgan Chase Bank, N.A., as administrative agent and swingline lender. The Credit Facility can be used by JCG and its subsidiaries for working capital needs and general corporate purposes. The Credit Facility bears interest on borrowings outstanding at the London Interbank Offered Rate plus a spread, which is based on JCG's credit rating. JCG is required to pay a quarterly commitment fee on any unused portion of the Credit Facility, which is also based on JCG's credit rating. Under the Credit Facility, the financing leverage ratio cannot exceed 3.00x, and the interest coverage ratio must equal or exceed 4.00x. At September 30, 2014, JCG was in compliance with all covenants, and there were no borrowings under the Credit Facility at September 30, 2014, or during the nine months ended September 30, 2014. The Credit Facility has a maturity date of November 23, 2018.

### **Capital Lease Obligations**

JCG's capital lease obligations relate to leased computer equipment. The carrying values of the capital lease obligations totaled \$1.1 million and \$1.8 million at September 30, 2014, and December 31, 2013, respectively, and are included in other accrued liabilities and other non-current liabilities on JCG's Condensed Consolidated Balance Sheets. The related lease terms extend through 2017.

### **Note 5 — Income Taxes**

The Company's effective tax rates for the three and nine months ended September 30, 2014 and 2013, are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Effective tax rate	36.7%	37.8%	41.1%	39.2%

The Company's effective tax rate decreased by 1.1% for the three months ended September 30, 2014, and increased 1.9% for the nine months ended September 30, 2014. The three-month period decrease and nine-month period increase are due largely to the reversal of unrealized deferred tax assets upon the expiration and vesting of certain equity-based compensation awards and changes in tax reserves and ownership in noncontrolling interests.

As of September 30, 2014, JCG had \$5.7 million of accrued reserves for income tax contingencies. JCG accrued additional reserves for income tax contingencies in the amount of \$0.2 million during the third quarter 2014, creating a net tax expense of \$0.1 million. JCG also decreased its income tax contingency reserves by \$0.1 million during the third quarter 2014, creating a net tax benefit of \$0.1 million. JCG anticipates that its income tax contingency reserves will decrease by approximately \$1.3 million in the next 12 months, primarily from the expiration of statutes of limitations and the resolution of

audits. Accrued reserves for income tax contingencies are presented in other accrued liabilities and other non-current liabilities on JCG's Condensed Consolidated Balance Sheets.

### Note 6 — Noncontrolling Interests

Noncontrolling interests in net income consisted of the following (in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Nonredeemable noncontrolling interests in INTECH	\$ 0.2	\$ 0.3	\$ 0.7	\$ 0.8
Nonredeemable noncontrolling interests in consolidated seeded investment products	(0.6)	2.0	(0.2)	2.1
Redeemable noncontrolling interests in subsidiaries	0.1	0.7	0.4	2.8
Total noncontrolling interests in net income	<u>\$ (0.3)</u>	<u>\$ 3.0</u>	<u>\$ 0.9</u>	<u>\$ 5.7</u>

#### Nonredeemable Noncontrolling Interests

At September 30, 2014, noncontrolling interests that are not subject to redemption rights included employee ownership interests in INTECH and third-party investors' ownership in consolidated seeded investment products.

Nonredeemable noncontrolling interests as of September 30, 2014, and December 31, 2013, are summarized as follows (in millions):

	September 30, 2014	December 31, 2013
Nonredeemable noncontrolling interests in consolidated seeded investment products	\$ 38.8	\$ 8.8
Nonredeemable noncontrolling interests in INTECH	5.0	4.9
Total nonredeemable noncontrolling interests	<u>\$ 43.8</u>	<u>\$ 13.7</u>

Changes in noncontrolling interests in consolidated seeded investment products were driven by changes in the market value of the underlying seeded investment products and changes in ownership of the underlying seeded investment products. Noncontrolling interests in seeded products increased in 2014 due to third-party investment in a number of the Company's mutual funds during the third quarter of 2014.

The following table presents a rollforward of noncontrolling interests in consolidated seeded investment products (in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Beginning of period balance	\$ 14.4	\$ 26.1	\$ 8.8	\$ 12.4
Changes in market value	(0.6)	2.0	(0.2)	2.1
Changes in ownership	25.0	5.8	30.2	19.4
End of period balance	<u>\$ 38.8</u>	<u>\$ 33.9</u>	<u>\$ 38.8</u>	<u>\$ 33.9</u>

#### Redeemable Noncontrolling Interests

As of September 30, 2014, and December 31, 2013, redeemable noncontrolling interests are summarized as follows (in millions):

	September 30, 2014	December 31, 2013
Redeemable noncontrolling interests in subsidiaries	\$ 5.5	\$ 5.9
Undistributed earnings	(0.7)	1.4
Total redeemable noncontrolling interests	<u>\$ 4.8</u>	<u>\$ 7.3</u>

INTECH ownership interests held by a founding member had an estimated fair value of \$5.5 million and \$5.3 million as of September 30, 2014, and December 31, 2013, respectively, representing approximately 1.0% aggregate ownership of INTECH for both periods. This founding member is entitled to retain his remaining INTECH interests until his death and has the option to require JCG to purchase from him his ownership interests of INTECH at fair value.

#### Perkins

On February 3, 2014, JCG exercised its right to purchase the remaining noncontrolling ownership units in Perkins Investment Management LLC ("Perkins") of 0.4%. Under the terms of the call, the remaining noncontrolling ownership units were redeemed for \$0.6 million on March 14, 2014, based on the fair value as of the call exercise date. The fair value of the ownership units was based on a contractual formula driven by revenue and investment performance of products managed by Perkins.

The noncontrolling interests were primarily held by founding members who are not involved in the management of Perkins. Perkins management continues to hold the majority of their interests in Perkins through senior profits interests awards and long-term incentive compensation plans. The Perkins senior profits interests awards and long-term incentive compensation plans provide active members of Perkins management an ongoing stake in the success of Perkins.

### Note 7 — Long-Term Incentive Compensation

JCG generally grants annual long-term incentive awards in February of each year. JCG granted \$55.5 million in long-term incentive awards during the nine months ended September 30, 2014, which generally vest and will be recognized ratably over a four-year period. The 2014 awards consisted of \$32.8 million of restricted stock (3.0 million shares at a weighted-average price of \$10.95 per share) and \$22.7 million of mutual fund share awards.

During the three and nine months ended September 30, 2014, JCG recognized \$0.9 million and \$3.3 million of long-term incentive compensation expense related to mark-to-market adjustments of mutual fund share awards and deferred compensation plans, and \$2.4 million and \$5.7 million during the same periods in 2013, respectively.

JCG records compensation expense associated with long-term incentive awards based on the amount of awards expected to vest at the end of the stated service period, comprising the total value of the awards less an estimate for forfeitures.

Additionally, in October 2014, INTECH granted new long-term incentive awards to retain and incentivize employees. The new awards consist of appreciation rights, profits interests and phantom interests and are designed to give recipients an equity-like stake in INTECH. Combined, the new awards represent an approximate 12% economic stake in INTECH's pre-incentive profits and replace a portion of the prior discretionary bonus pool. The appreciation rights have a grant date fair value of \$23.2 million which will be amortized on a straight-line basis over the 10-year vesting schedule.

Profits interests and phantom interests entitle holders to periodic distributions of a portion of operating income. Distributions are made during employment and, for profits interests, post-employment for up to 10 years. Phantom interests are entitled to a one-time distribution at termination of employment. Compensation expense for post-employment distributions will be based upon the present value of expected future distributions and will be recognized pro-rata over the 10-year vesting schedule for profits interests and five years for phantom interests. Estimated compensation expense for the post-employment payments associated with the profits and phantom interests for the next four quarters is approximately \$2.0 million.

### Note 8 — Other (Expense) Income, Net

The components of other (expense) income, net are as follows (in millions):

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Dividend income	\$ 0.4	\$ 0.4	\$ 1.3	\$ 1.1
Interest income	0.2	0.1	0.5	0.4
Foreign currency (losses) gains, net	(1.7)	0.3	(1.9)	0.2
Other, net	—	—	—	0.1
Total other (expense) income, net	\$ (1.1)	\$ 0.8	\$ (0.1)	\$ 1.8

## Note 9 — Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss), net of tax, for the three and nine months ended September 30, 2014 and 2013, are as follows (in millions):

	Three months ended September 30,					
	2014			2013		
	Unrealized gains (losses) on available-for-sale securities	Foreign currency losses	Total	Unrealized gains (losses) on available-for-sale securities	Foreign currency losses	Total
Beginning balance	\$ 3.0	\$ (2.3)	\$ 0.7	\$ 1.1	\$ (2.3)	\$ (1.2)
Other comprehensive income (loss) before reclassifications	—	—	—	0.7	—	0.7
Amounts reclassified from accumulated other comprehensive income (loss) to:						
Investment gains, net	(1.8)	—	(1.8)	(0.7)	—	(0.7)
Net current period other comprehensive loss	(1.8)	—	(1.8)	—	—	—
Ending balance	<u>\$ 1.2</u>	<u>\$ (2.3)</u>	<u>\$ (1.1)</u>	<u>\$ 1.1</u>	<u>\$ (2.3)</u>	<u>\$ (1.2)</u>
	Nine months ended September 30,					
	2014			2013		
	Unrealized gains (losses) on available-for-sale securities	Foreign currency losses	Total	Unrealized gains (losses) on available-for-sale securities	Foreign currency losses	Total
Beginning balance	\$ 1.2	\$ (2.3)	\$ (1.1)	\$ 1.4	\$ (0.8)	\$ 0.6
Other comprehensive income (loss) before reclassifications	2.3	—	2.3	0.6	—	0.6
Amounts reclassified from accumulated other comprehensive income (loss) to:						
Investment gains, net	(2.3)	—	(2.3)	(0.9)	—	(0.9)
Other (expense) income, net	—	—	—	—	(1.5)	(1.5)
Net current period other comprehensive loss	—	—	—	(0.3)	(1.5)	(1.8)
Ending balance	<u>\$ 1.2</u>	<u>\$ (2.3)</u>	<u>\$ (1.1)</u>	<u>\$ 1.1</u>	<u>\$ (2.3)</u>	<u>\$ (1.2)</u>

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## Note 10 — Earnings Per Share

The following is a summary of the earnings per share calculation for the three and nine months ended September 30, 2014 and 2013 (in millions, except per share data):

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net income attributable to JCG	\$ 40.9	\$ 32.6	\$ 107.7	\$ 76.4
Less: Allocation of earnings to participating restricted stock awards	1.4	—	3.6	—
Net income attributable to JCG common shareholders	<u>\$ 39.5</u>	<u>\$ 32.6</u>	<u>\$ 104.1</u>	<u>\$ 76.4</u>
<b>Basic earnings per share attributable to JCG common shareholders:</b>				
Weighted-average common shares outstanding	<u>181.4</u>	<u>184.7</u>	<u>183.0</u>	<u>184.8</u>



Basic earnings per share	\$ 0.22	\$ 0.18	\$ 0.57	\$ 0.41
<b>Diluted earnings per share attributable to JCG common shareholders:</b>				
Weighted-average common shares outstanding	181.4	184.7	183.0	184.8
Incremental common shares	1.4	1.7	1.0	1.2
Weighted-average diluted common shares outstanding	182.8	186.4	184.0	186.0
Diluted earnings per share	\$ 0.22	\$ 0.17	\$ 0.57	\$ 0.41
<b>Dividends paid per share</b>	<b>\$ 0.08</b>	<b>\$ 0.07</b>	<b>\$ 0.23</b>	<b>\$ 0.14</b>

Incremental common shares include the dilutive effect of stock options, unvested nonparticipating restricted stock awards, the 2018 Convertible Notes and price-vesting units using the two-class method of calculating earnings per share.

The following stock options, unvested nonparticipating restricted stock and price-vesting units are anti-dilutive and have not been included in the weighted-average diluted shares outstanding calculation (in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Employee stock options	1.8	7.0	3.4	7.0
Other stock options	—	14.0	—	14.0
Unvested nonparticipating restricted stock and price-vesting units	0.1	0.2	0.1	1.0

All shares held in the JCG Employee Stock Ownership Plan are treated as outstanding for purposes of computing basic earnings per share.

#### Note 11 — Litigation and Other Regulatory Matters

JCG is periodically involved in various legal proceedings and other regulatory matters. At September 30, 2014, JCG had a \$0.2 million litigation accrual for all pending litigation matters. Possible losses in addition to this amount cannot be currently estimated, and as such, no additional accruals have been made. Although there can be no assurances, based on information currently available, management believes that it is probable that the ultimate outcome of matters that are pending or threatened will not have a material effect on JCG's consolidated financial condition.

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#### Note 12 — Acquisition of VS Holdings Inc.

On October 13, 2014, the Company entered into an agreement to acquire VS Holdings Inc., the parent company of VelocityShares, LLC ("VelocityShares"). VelocityShares is a leading sponsor of unique exchange-traded products ("ETPs"), including rules-based exchange-traded funds ("ETFs"), that are institutionally-focused, and deliver sophisticated volatility management solutions. As of September 30, 2014, VelocityShares-branded products had approximately \$2 billion in assets. The majority of these assets represent tactical trading products serving short-term investors and traders in the form of exchange-traded notes. More recently, VelocityShares has leveraged its expertise to launch a second business around innovative and intelligent ETFs for diversified investment portfolios, currently focused on volatility hedged equities and equal-risk weighted solutions. These ETF strategies, along with future product innovation, offer significant potential synergies between VelocityShares and JCG.

The transaction includes initial upfront cash consideration of \$30.0 million with up to an additional \$36.0 million in contingent cash consideration if certain revenue targets are achieved over a four-year period. The acquisition is expected to close in the fourth quarter of 2014 and is subject to certain conditions, including regulatory approval.

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

### FORWARD-LOOKING STATEMENTS

*Certain statements in this Quarterly Report on Form 10-Q contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Statements preceded by, followed by or that otherwise include the words “believes,” “expects,” “anticipates,” “intends,” “projects,” “estimates,” “plans,” “may increase,” “may fluctuate,” “forecast” and similar expressions or future or conditional verbs such as “will,” “should,” “would,” “may” and “could” are generally forward-looking in nature and not historical facts. Any statements that refer to expectations or other characterizations of future events, circumstances or results are forward-looking statements. These statements are based on the beliefs and assumptions of Company management based on information currently available to management.*

*Various risks, uncertainties, assumptions and factors that could cause future results to differ materially from those expressed by the forward-looking statements included in this Quarterly Report on Form 10-Q include, but are not limited to, risks, uncertainties, assumptions and factors specified in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013, and this Quarterly Report on Form 10-Q included under headings such as “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and in other filings and furnishings made by the Company with the SEC from time to time. In light of these risks, uncertainties, assumptions and factors, the forward-looking events discussed in this Quarterly Report on Form 10-Q may not occur. Many of these factors are beyond the control of the Company and its management. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date stated, or if no date is stated, as of the date of this Quarterly Report on Form 10-Q. The Company undertakes no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events unless required by applicable law or regulation.*

## **AVAILABLE INFORMATION**

Copies of Janus Capital Group Inc.’s (collectively, “JCG” or the “Company”) filings with the Securities and Exchange Commission (“SEC”) can be obtained from the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information can be obtained about the operation of the Public Reference Room by calling the SEC at (800) SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at <http://www.sec.gov>.

JCG makes available free of charge its annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments thereto as soon as reasonably practical after such filing has been made with the SEC. Reports may be obtained through the Investor Relations section of JCG’s website (<http://ir.janus.com>) or by contacting JCG at (888) 834-2536. The contents of JCG’s website are not incorporated herein for any purpose.

JCG’s Officer Code of Ethics for Principal Executive Officer and Senior Financial Officers (including its Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer) (the “Officer Code”); Corporate Code of Business Conduct and Ethics for all employees; corporate governance guidelines; and the charters of key committees of the board of directors (including the Audit, Compensation, Nominating, Corporate Governance, and Planning and Strategy committees) are available on its website (<http://ir.janus.com/documents.cfm>). Any future amendments to or waivers of the Officer Code will be posted to the Investor Relations section of JCG’s website.

## **Overview**

JCG provides investment management, administration, distribution and related services to financial advisors, individuals and institutional clients through mutual funds, other pooled investment vehicles, separate accounts and subadvised relationships (collectively referred to as “investment products”) in both domestic and international markets. Over the last several years, JCG has expanded its business to become a more diversified manager with increased investment product offerings and distribution capabilities. JCG provides investment management competencies across a range of disciplines, including fundamental U.S. and global equities (growth and value), mathematical equities, fixed income and alternatives through its subsidiaries, Janus Capital Management LLC

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(“Janus”), INTECH Investment Management LLC (“INTECH”) and Perkins Investment Management LLC (“Perkins”). Each of JCG’s subsidiaries specializes in specific investment styles and has its own unique and independent perspective. JCG’s investment products are distributed through three primary channels: retail intermediary, institutional and international. Each distribution channel focuses on specific investor groups and the unique requirements of each group.

Revenues are generally based upon a percentage of the market value of assets under management and are calculated as a percentage of the daily average asset balance in accordance with contractual agreements. Certain investment products are also subject to performance fees, which vary based on a product's relative performance as compared to a benchmark index and the level of assets subject to such fees. Assets under management primarily consist of domestic and international equity and fixed income securities. Accordingly, fluctuations in domestic and international financial markets, relative investment performance, sales and redemptions of investment products, and changes in the composition of assets under management are all factors that have a direct effect on JCG's operating results.

### Third Quarter 2014 Summary

Average assets under management for the third quarter 2014 of \$176.5 billion increased \$2.1 billion, or 1.2%, over the second quarter 2014 as a result of favorable market conditions, partially offset by long-term net outflows. Third quarter 2014 operating expenses of \$165.4 million increased \$4.9 million, or 3.1%, from second quarter 2014 primarily due to higher compensation expenses. The Company achieved an operating margin of 30.2% and net income of \$0.22 per diluted share in the third quarter 2014.

#### *Investment Team Additions*

During the third quarter 2014, the Company made three notable hires on the investment team. On July 8, 2014, the Company announced the hiring of Myron Scholes, Ph.D. and Ashwin Alankar, Ph.D., each authorities on risk, economics and finance, who both joined the investment team in the third quarter. Mr. Scholes serves as Chief Investment Strategist while Mr. Alankar serves as the head of Asset Allocation and Risk Management and also as Co-Portfolio Manager of the Janus Global Asset Allocation Funds.

On September 26, 2014, the Company announced the hiring of William Gross as Portfolio Manager. Mr. Gross will manage a recently launched Janus Global Unconstrained Bond Fund and related strategies, and will join other members of the Janus team focused on global asset allocation. Mr. Gross's employment was effective September 29, 2014, and he began managing the Janus Global Unconstrained Bond Fund and related strategies effective October 6, 2014. Mr. Gross will be responsible for building out Janus' global macro fixed income strategies. His concentration on such strategies will be separate and complementary to Janus' existing credit-based fixed income platform. In conjunction with the hiring of Mr. Gross, JCG made an aggregate \$100.0 million seed investment in its Global Unconstrained Bond strategy. The investment included \$48.0 million and \$52.0 million allocated to JCG's domestic and international trusts, respectively.

#### *Acquisition of VS Holdings Inc.*

On October 13, 2014, the Company entered into an agreement to acquire VS Holdings Inc., the parent company of VelocityShares, LLC ("VelocityShares"). VelocityShares is a leading sponsor of unique exchange-traded products ("ETPs"), including rules-based exchange-traded funds ("ETFs"), that are institutionally-focused, and deliver sophisticated volatility management solutions. As of September 30, 2014, VelocityShares-branded products had approximately \$2 billion in assets. The majority of these assets represent tactical trading products serving short-term investors and traders in the form of exchange-traded notes. More recently, VelocityShares has leveraged its expertise to launch a second business around innovative and intelligent ETFs for diversified investment portfolios, currently focused on volatility hedged equities and equal-risk weighted solutions. These ETF strategies, along with future product innovation, offer significant potential synergies between VelocityShares and JCG.

The transaction includes initial upfront cash consideration of \$30.0 million with up to an additional \$36.0 million in contingent cash consideration if certain revenue targets are achieved over a four-year period. The acquisition is expected to close in the fourth quarter of 2014 and is subject to certain conditions, including regulatory approval.

### Investment Performance of Assets Under Management

Investment products are generally evaluated based on their investment performance relative to other investment products with similar disciplines and strategies or benchmark indices.

The following table is a summary of investment performance as of September 30, 2014:

	Percentage of mutual fund assets outperforming majority of Morningstar peers (1)		
	1-Year	3-Year	5-Year
Complex-wide mutual fund assets	62%	71%	50%
Fundamental equity mutual fund assets	55%	66%	45%

Fixed income mutual fund assets	100%	100%	78%
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	Percentage of relative return strategies outperforming respective benchmarks (2)		
	1-Year	3-Year	5-Year
Mathematical equity strategies	48%	38%	58%
Complex-wide mutual funds	53%		

(1) References Morningstar relative performance on an asset-weighted basis.

(2) References performance of relative return strategies, net of fees.

## Assets Under Management

### Assets Under Management and Flows

Total Company assets under management of \$174.4 billion at September 30, 2014, increased \$7.7 billion, or 4.6%, from September 30, 2013, as a result of net market appreciation of \$20.8 billion, offset by long-term net outflows of \$13.1 billion. Long-term net flows represent total Company net sales and redemptions, excluding money market assets.

The following tables present the components of JCG's assets under management for the three and nine months ended September 30, 2014 and 2013 (in billions):

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Beginning of period assets	\$ 177.7	\$ 160.6	\$ 173.9	\$ 156.8
Long-term sales (1)				
Fundamental equity	5.2	3.8	13.0	13.2
Fixed income	3.1	2.5	8.4	9.0
Mathematical equity	1.6	2.7	4.6	4.3
Long-term redemptions (1)				
Fundamental equity	(7.3)	(8.7)	(20.4)	(24.2)
Fixed income	(2.8)	(2.5)	(6.8)	(8.6)
Mathematical equity	(1.9)	(2.0)	(5.7)	(7.2)
Long-term net flows (1)				
Fundamental equity	(2.1)	(4.9)	(7.4)	(11.0)
Fixed income	0.3	—	1.6	0.4
Mathematical equity	(0.3)	0.7	(1.1)	(2.9)
Total long-term net flows	(2.1)	(4.2)	(6.9)	(13.5)
Net money market flows	—	—	—	(0.1)
Market/fund performance	(1.2)	10.3	7.4	23.5
End of period assets	\$ 174.4	\$ 166.7	\$ 174.4	\$ 166.7

(1) Excludes money market flows. Sales and redemptions of money market funds are presented net on a separate line due to the short-term nature of the investments.

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Average assets under management:				
Fundamental equity	\$ 93.8	\$ 92.8	\$ 93.9	\$ 92.6
Fixed income	31.3	27.6	30.5	27.4
Mathematical equity	50.0	43.3	48.8	42.3
Money market	1.4	1.5	1.4	1.4
Total	\$ 176.5	\$ 165.2	\$ 174.6	\$ 163.7

### Assets and Flows by Investment Discipline

JCG, through its subsidiaries, offers investment products based on a diversified set of investment disciplines. Janus offers growth and core equity, global and international equity as well as balanced, fixed income and retail money market investment products. INTECH offers mathematical-based investment products, and Perkins offers value-disciplined investment products. Assets and flows by investment discipline are as follows (in billions):

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
<b>Growth/Core (1)</b>				
Beginning of period assets	\$ 61.4	\$ 57.1	\$ 60.8	\$ 53.8
Sales	3.0	2.0	7.5	8.0
Redemptions	(4.2)	(5.4)	(10.6)	(13.4)
Net redemptions	(1.2)	(3.4)	(3.1)	(5.4)
Market/fund performance	—	4.9	2.5	10.2
End of period assets	<u>\$ 60.2</u>	<u>\$ 58.6</u>	<u>\$ 60.2</u>	<u>\$ 58.6</u>
<b>Global/International</b>				
Beginning of period assets	\$ 20.0	\$ 16.8	\$ 19.3	\$ 17.9
Sales	1.5	1.1	3.7	2.5
Redemptions	(1.4)	(1.1)	(3.9)	(4.3)
Net sales (redemptions)	0.1	—	(0.2)	(1.8)
Market/fund performance	(0.5)	1.5	0.5	2.2
End of period assets	<u>\$ 19.6</u>	<u>\$ 18.3</u>	<u>\$ 19.6</u>	<u>\$ 18.3</u>
<b>Mathematical Equity</b>				
Beginning of period assets	\$ 49.8	\$ 41.3	\$ 47.6	\$ 40.2
Sales	1.6	2.7	4.6	4.3
Redemptions	(1.9)	(2.0)	(5.7)	(7.2)
Net sales (redemptions)	(0.3)	0.7	(1.1)	(2.9)
Market/fund performance	(0.1)	2.7	2.9	7.4
End of period assets	<u>\$ 49.4</u>	<u>\$ 44.7</u>	<u>\$ 49.4</u>	<u>\$ 44.7</u>
<b>Fixed Income (1)</b>				
Beginning of period assets	\$ 31.4	\$ 27.3	\$ 28.9	\$ 26.4
Sales	3.1	2.5	8.4	9.0
Redemptions	(2.8)	(2.5)	(6.8)	(8.6)
Net sales	0.3	—	1.6	0.4
Market/fund performance	(0.2)	0.5	1.0	1.0
End of period assets	<u>\$ 31.5</u>	<u>\$ 27.8</u>	<u>\$ 31.5</u>	<u>\$ 27.8</u>
<b>Value</b>				
Beginning of period assets	\$ 13.7	\$ 16.7	\$ 15.9	\$ 17.0
Sales	0.7	0.7	1.8	2.7
Redemptions	(1.7)	(2.2)	(5.9)	(6.5)
Net redemptions	(1.0)	(1.5)	(4.1)	(3.8)
Market/fund performance	(0.4)	0.7	0.5	2.7
End of period assets	<u>\$ 12.3</u>	<u>\$ 15.9</u>	<u>\$ 12.3</u>	<u>\$ 15.9</u>
<b>Money Market</b>				
Beginning of period assets	\$ 1.4	\$ 1.4	\$ 1.4	\$ 1.5
Sales	0.1	0.2	0.5	0.6
Redemptions	(0.1)	(0.2)	(0.5)	(0.7)
Net redemptions	—	—	—	(0.1)
Market/fund performance	—	—	—	—
End of period assets	<u>\$ 1.4</u>	<u>\$ 1.4</u>	<u>\$ 1.4</u>	<u>\$ 1.4</u>

(1) Growth/core and fixed income assets reflect a 50%/50% split of the Janus Balanced Fund between the two categories.

### **Valuation**

The fair value of assets under management is derived from the cash and investment securities underlying JCG's investment products. Investment security values are determined using unadjusted or adjusted quoted market prices and independent third-party price quotes in active markets. JCG uses adjusted market prices to value certain international equity securities in its domestic and non-domestic mutual funds to adjust for stale pricing that may occur between the close of certain foreign exchanges and the New York Stock Exchange ("NYSE"). Security prices are adjusted based upon historical impacts for similar post-close activity. For fixed income securities with maturities of 60 days or less, the amortized cost method is used to determine the value. Securities for which market prices are not readily available or are considered unreliable are internally valued using appropriate methodologies for each security type or by engaging third-party specialists. The fair value of the vast majority of the equity securities underlying JCG's investment products is derived from readily available and reliable market price quotations while the fair value of a majority of the fixed income securities is derived from evaluated pricing from independent third-party providers.

The pricing policies for mutual funds advised by JCG's subsidiaries (the "Funds") are established by the Funds' Independent Board of Trustees and are designed to test and validate fair value measurements. Responsibility for pricing securities held within separate and subadvised accounts may be delegated by the separate or subadvised clients to JCG or another party. JCG validates pricing received from third-party providers by comparing pricing between primary and secondary vendors. Any discrepancies are identified and resolved.

JCG performs a number of procedures to validate the pricing received from third-party providers. For actively traded equity securities, prices are received daily from both a primary and secondary vendor. For fixed income securities, prices are received daily from a primary vendor and weekly from a secondary vendor. Prices from the primary and secondary vendors are compared to identify any discrepancies. In the event of a discrepancy, a price challenge may be issued to both vendors. Securities with significant price changes require additional research, which may include a review of all news pertaining to the issue and issuer and any corporate actions. All fixed income prices are reviewed by JCG's fixed income trading desk to incorporate market activity information available to JCG's traders. In the event the traders have received price indications from market makers for a particular issue, this information is transmitted to the pricing vendors.

All pricing vendors are subject to an annual on-site due diligence review that includes a detailed discussion about the methodologies used, particularly for evaluated prices, and any changes to the methodologies.

JCG is generally not the pricing agent for securities held within separate and subadvised accounts. However, JCG does perform a daily reconciliation between the pricing performed by the pricing agent and the pricing applied based on JCG's procedures. Any pricing discrepancies are sent to the pricing agent for resolution.

## **Results of Operations**

### **Three Months Ended September 30, 2014, Compared with Three Months Ended September 30, 2013**

#### **Revenues**

##### *Investment Management Fees*

Investment management fees increased \$9.3 million, or 4.6%, primarily as a result of the 6.8% increase in average assets under management driven by market appreciation. Revenue increased at a lower rate than average assets primarily due to a product mix shift toward lower yielding products and channels.

##### *Performance Fees*

Performance fee revenue is derived from certain mutual funds and separate accounts. Negative performance fees were driven by underperformance of certain mutual funds against their respective benchmarks. Negative performance fees improved \$8.0 million, or 36.4%, primarily as a result of improved investment performance and the roll-off of historical

underperformance of certain mutual funds against their respective benchmarks. A summary of mutual fund and separate account assets subject to performance fees as of September 30, 2014 and 2013, is as follows (in billions):

	September 30,	
	2014	2013
Mutual fund assets	\$ 49.0	\$ 52.2
Separate account assets	\$ 16.7	\$ 13.3

## **Operating Expenses**

### *Employee Compensation and Benefits*

Employee compensation and benefits increased \$8.9 million, or 12.1%, principally due to higher incentive compensation as a result of higher operating income. The company-wide incentive compensation plan is designed to link variable compensation to operating income.

### *Long-Term Incentive Compensation*

Long-term incentive compensation decreased \$4.2 million, or 26.6%, primarily due to a decrease of \$3.7 million in Perkins senior profits interests awards expense, a decrease of \$3.3 million from the vesting of awards granted in previous years and a decrease of \$1.5 million due to lower mark-to-market adjustments for changes in fair value of mutual fund share awards and investments related to deferred compensation plans. These decreases were partially offset by an increase of \$4.7 million of expense from new awards granted during 2014.

Long-term incentive awards granted during 2014 totaled \$55.5 million and will generally be recognized ratably over a four-year period. The Perkins senior profits interests awards receive 5% of Perkins' annual taxable income and have a terminal value based on Perkins revenue and relative investment performance of products managed by Perkins. Long-term incentive compensation expense for the year ended December 31, 2014, is currently expected to be approximately \$53 million.

Additionally, in October 2014, INTECH granted new long-term incentive awards to retain and incentivize employees. The new awards consist of appreciation rights, profits interests and phantom interests and are designed to give recipients an equity-like stake in INTECH. Combined, the new awards represent an approximate 12% economic stake in INTECH's pre-incentive profits and replace a portion of the prior discretionary bonus pool. The appreciation rights have a grant date fair value of \$23.2 million which will be amortized on a straight-line basis over the 10-year vesting schedule.

Profits interests and phantom interests entitle holders to periodic distributions of a portion of operating income. Distributions are made during employment and, for profits interests, post-employment for up to 10 years. Phantom interests are entitled to a one-time distribution at termination of employment. Compensation expense for post-employment distributions will be based upon the present value of expected future distributions and will be recognized pro-rata over the 10-year vesting schedule for profits interests and five years for phantom interests.

Estimated compensation expense for the post-employment payments associated with the profits and phantom interests for the next four quarters is approximately \$2.0 million.

### *General, Administrative and Occupancy*

General, administrative and occupancy expense increased \$1.0 million, or 3.7%, primarily due to \$0.7 million in legal and travel costs related to the acquisition of VS Holdings, Inc.

## **Non-Operating Income and Expenses**

### *Interest Expense*

Interest expense decreased \$1.9 million, or 20.0%, primarily as a result of the June 2013 exchange of \$110.0 million aggregate principal amount of JCG's existing, 3.250% Convertible Senior Notes due 2014 ("2014 Convertible Notes") for \$116.6 million aggregate principal amount of newly issued, 0.750% Convertible Senior Notes due 2018 ("2018 Convertible Notes"). The decrease was also driven by the repayment of the 6.119% Senior Notes due 2014 ("2014 Senior Notes") that matured on April 15, 2014, and the repayment of the remainder of the 2014 Convertible Notes that matured on July 15, 2014.

### *Investment Gains, Net*

The components of investment gains, net for the three months ended September 30, 2014 and 2013, are as follows (in millions):

	Three months ended September 30,	
	2014	2013
Seeded investment products	\$ 1.0	\$ 17.4
Noncontrolling interests in seeded investment products	(0.6)	2.0
Investments in advised mutual funds	(0.1)	2.2
Index swaps and index futures	0.9	(14.4)
Economic hedge for deferred compensation plans	0.1	0.7
Investment gains, net	<u>\$ 1.3</u>	<u>\$ 7.9</u>

*Other (Expense) Income, Net*

Other (expense) income, net decreased \$1.9 million primarily due to foreign currency losses on monetary assets denominated in foreign currencies due to the strengthening of the United States dollar.

*Income Tax Provision*

JCG's effective tax rate was 36.7% and 37.8% for the three months ended September 30, 2014 and 2013, respectively. The effective tax rate and JCG's income tax provision for the same periods included \$0.1 million tax expense and \$1.7 million tax benefit, respectively, related to the reversal of unrealized deferred tax assets upon the expiration and vesting of certain equity-based compensation awards.

*Noncontrolling Interests*

Noncontrolling interests in net income decreased from \$3.0 million in the third quarter 2013 to \$(0.3) million in the third quarter 2014 primarily due to \$2.7 million of losses associated with the noncontrolling interest in consolidated investment products and a decrease of \$0.6 million from the purchase of noncontrolling ownership units in Perkins on March 14, 2014.

**Nine Months Ended September 30, 2014, Compared with Nine Months Ended September 30, 2013**

***Revenues***

*Investment Management Fees*

Investment management fees increased \$27.0 million, or 4.5%, primarily as a result of the 6.7% increase in average assets under management driven by market appreciation. Revenue increased at a lower rate than average assets primarily due to a product mix shift toward lower yielding products and channels.

*Performance Fees*

Negative performance fees improved \$16.5 million, or 25.9%, primarily as a result of improved investment performance and the roll-off of historical underperformance of certain mutual funds against their respective benchmarks.

***Operating Expenses***

*Employee Compensation and Benefits*

Employee compensation and benefits increased \$18.5 million, or 8.3%, principally due to higher incentive compensation as a result of higher operating income.

*Long-Term Incentive Compensation*

Long-term incentive compensation decreased \$9.2 million, or 20.3%, primarily due to a decrease of \$10.7 million from the vesting of awards granted in previous years, a decrease of \$10.3 million in Perkins senior profits interests awards expense and a decrease of \$2.4 million due to lower mark-to-market adjustments for changes in fair value of mutual fund share awards and investments related to deferred compensation plans. These decreases were partially offset by an increase of \$15.0 million of expense from new awards granted primarily during 2014.



## Non-Operating Income and Expenses

### Interest Expense and Loss on Early Extinguishment of Debt

Interest expense decreased \$5.8 million, or 18.3%, primarily as a result of the June 2013 exchange of \$110.0 million aggregate principal amount of JCG's 2014 Convertible Notes for \$116.6 million aggregate principal amount of newly issued, 2018 Convertible Notes. The decrease was also driven by the repayment of the 2014 Senior Notes that matured on April 15, 2014, and the repayment of the remainder of the 2014 Convertible Notes that matured on July 15, 2014.

During the nine months ended September 30, 2013, JCG recognized a \$12.6 million loss on early extinguishment of debt related to the exchange of JCG's 2014 Convertible Notes and a \$0.9 million loss on the open market repurchase of \$8.0 million aggregate principal amount of the Company's 6.70% Senior Notes due 2017 ("2017 Senior Notes").

### Investment Gains, Net

The components of investment gains, net for the nine months ended September 30, 2014 and 2013, are as follows (in millions):

	Nine months ended September 30,	
	2014	2013
Seeded investment products	\$ 8.9	\$ 18.0
Noncontrolling interests in seeded investment products	(0.2)	2.1
Investments in advised mutual funds	(0.1)	7.0
Index swaps and index futures	(8.3)	(22.6)
Economic hedge for deferred compensation plans	0.8	1.9
Investment gains, net	<u>\$ 1.1</u>	<u>\$ 6.4</u>

### Income Tax Provision

JCG's effective tax rate was 41.1% and 39.2% for the nine months ended September 30, 2014 and 2013, respectively. The effective tax rate and JCG's income tax provision for the respective periods included \$8.0 million and \$5.7 million related to the reversal of unrealized deferred tax assets upon the expiration and vesting of certain equity-based compensation awards.

### Noncontrolling Interests

Noncontrolling interests in net income decreased from \$5.7 million for the nine months ended September 30, 2013, to \$0.9 million for the nine months ended September 30, 2014, primarily due to a decrease of \$2.5 million related to the purchase of noncontrolling ownership units in Perkins and \$2.4 million of losses associated with the noncontrolling interests in consolidated investment products.

## LIQUIDITY AND CAPITAL RESOURCES

### Short-Term Liquidity and Capital Resources

The following table summarizes key balance sheet data relating to JCG's liquidity and capital resources as of September 30, 2014, and December 31, 2013 (in millions):

	September 30, 2014	December 31, 2013
Cash and cash equivalents:		
Cash and cash equivalents held domestically	\$ 358.5	\$ 265.7
Cash and cash equivalents held outside the United States (1)	76.4	78.8
Total cash and cash equivalents	<u>\$ 434.9</u>	<u>\$ 344.5</u>
Accounts receivable	\$ 116.2	\$ 108.8
Investment securities:		
Seeded investment products	\$ 285.6	\$ 314.8
Noncontrolling interests (2)	38.8	8.8

Debt securities	—	101.5
Investments in advised mutual funds and the economic hedging of deferred compensation plans	16.8	60.4
Total investment securities	<u>\$ 341.2</u>	<u>\$ 485.5</u>
Long-term debt (including current portion)	\$ 449.8	\$ 544.6

- (1) As of September 30, 2014 and December 31, 2013, cash held outside of the United States may not be entirely available for general corporate purposes due to approximately \$25 million and \$24 million of capital requirements associated with foreign subsidiaries of JCG, respectively.
- (2) The noncontrolling interests balance is associated with seeded investment products.

Cash and cash equivalents consist primarily of cash on hand and short-term investments with an initial maturity of three months or less when purchased, including investments in money market funds. JCG believes that existing cash and cash from operations should be sufficient to satisfy its short-term capital requirements. Expected short-term uses of cash include ordinary operating expenditures, seed capital investments, dividend payments, income tax payments, common share repurchases, and interest and principal payments on outstanding debt. JCG may use available cash for general corporate purposes and acquisitions. In addition, JCG may repurchase its outstanding debt securities in open market transactions, privately negotiated transactions, exchanges, tender offers or otherwise. Any repurchase of outstanding debt securities and common stock will depend on prevailing market conditions, JCG's liquidity requirements, contractual and legal restrictions, and other factors.

The current portion of long-term debt was \$96.9 million as of December 31, 2013. The December 31, 2013, balance represents \$60.0 million of principal related to the 2014 Convertible Notes that was paid with cash on hand on July 15, 2014 and \$38.9 million of principal related to the 2014 Senior Notes that was paid with cash on hand on April 15, 2014.

#### *Common Stock Repurchase Program*

As part of its capital and liquidity management, JCG maintains a share repurchase program to offset dilution resulting from stock-based compensation and to return capital to shareholders. Share repurchases during the three and nine months ended September 30, 2014, are as follows:

	<u>Three months ended September 30, 2014</u>	<u>Nine months ended September 30, 2014</u>
Total cost	\$ 25.4 million	\$ 61.3 million
Shares repurchased	2,094,800	5,198,292
Average price per share	\$ 12.14	\$ 11.78

As of September 30, 2014, \$410.5 million is available for stock repurchases under the current authorization.

#### *Dividends*

Dividends paid during the nine months ended September 30, 2014, are summarized as follows:

<u>Dividend per share</u>	<u>Date declared</u>	<u>Date paid</u>
\$0.07	January 21	February 21
\$0.08	April 17	May 23
\$0.08	July 21	August 22

On April 17, 2014, JCG's Board of Directors approved an increase of \$0.01 per share, or 14%, in the Company's regular quarterly dividend. The approved quarterly rate of \$0.08 per share represents an expected annualized dividend rate of \$0.32 per share of common stock. On October 20, 2014, JCG's Board of Directors declared a regular quarterly cash dividend of \$0.08 per share. The quarterly dividend will be paid on November 21, 2014, to JCG shareholders of record at the close of business on November 7, 2014.

The payment of cash dividends is within the discretion of JCG's Board of Directors and depends on many factors, including, but not limited to, JCG's results of operations, financial condition, capital requirements, restrictions imposed by financing agreements, general business conditions and legal requirements.

## Long-Term Liquidity and Capital Resources

Expected long-term commitments at September 30, 2014, include principal and interest payments related to the 2017 Senior Notes and the 2018 Convertible Notes, capital and operating lease payments, redeemable noncontrolling interests and Perkins senior profits interests awards. JCG expects to fund its long-term commitments using existing cash, cash generated from operations, refinancing debt or accessing capital and credit markets as necessary.

### Other Sources of Liquidity

At September 30, 2014, JCG had a \$200 million, unsecured, revolving credit facility (the "Credit Facility") with JPMorgan Chase Bank, N.A., as administrative agent and swingline lender. The Credit Facility can be used by JCG and its subsidiaries for working capital needs and general corporate purposes. The Credit Facility bears interest on borrowings outstanding at the London Interbank Offered Rate plus a spread, which is based on JCG's credit rating. JCG is required to pay a quarterly commitment fee on any unused portion of the Credit Facility, which is also based on JCG's credit rating. The Credit Facility has a maturity date of November 23, 2018.

The Credit Facility contains financial covenants with respect to leverage and interest coverage. The financing leverage ratio cannot exceed 3.00x, and the interest coverage ratio must equal or exceed 4.00x. At September 30, 2014, JCG's financing leverage ratio was 1.61x and the interest coverage ratio was 9.47x. JCG was in compliance with all covenants, and there were no borrowings under the Credit Facility at September 30, 2014, or during the nine months ended September 30, 2014.

### Cash Flows

A summary of cash flow data for the nine months ended September 30, 2014 and 2013, is as follows (in millions):

	<u>Nine months ended September 30,</u>	
	<u>2014</u>	<u>2013</u>
Cash flows provided by (used for):		
Operating activities	\$ 130.0	\$ 132.0
Investing activities	164.6	(60.6)
Financing activities	(204.1)	(98.6)
Effect of exchange rate changes on cash and cash equivalents	(0.1)	(1.6)
Net change in cash and cash equivalents	90.4	(28.8)
Cash balance at beginning of period	344.5	387.0
Cash balance at end of period	<u>\$ 434.9</u>	<u>\$ 358.2</u>

#### *Operating Activities*

Fluctuations in operating cash flows are attributable to changes in net income and working capital items, which can vary from period to period based on the amount and timing of cash receipts and payments.

#### *Investing Activities*

Cash provided by (used for) investing activities for the nine months ended September 30, 2014 and 2013, is as follows (in millions):

	<u>Nine months ended September 30,</u>	
	<u>2014</u>	<u>2013</u>
Purchase of property and equipment	\$ (7.5)	\$ (5.0)
Investment purchases and settlements:		
Seeding of investment products	(138.2)	(113.7)
Investments related to deferred compensation plans	(0.1)	(0.2)
Seed capital derivative instruments	(21.1)	(53.9)
Total investment purchases and settlements	<u>(159.4)</u>	<u>(167.8)</u>
Investment sales, settlements and maturities:		
Seeded investment products	173.9	42.8
Investments related to deferred compensation plans	44.4	37.9

Debt securities	100.0	—
Seed capital derivative instruments	13.2	31.5
Total investment sales, settlements and maturities	331.5	112.2
Cash provided by (used for) investing activities	\$ 164.6	\$ (60.6)

During the third quarter 2014, seeding of investment products included a \$100.0 million investment in the Global Unconstrained Bond strategy. The investment included \$48.0 million and \$52.0 million allocated to JCG's domestic and international trusts, respectively.

During the first quarter 2013, seeding of investment products included a \$73.7 million investment in a euro-denominated investment product. JCG's investment in the euro-denominated investment product was partially redeemed throughout the first and second quarters of 2014 and was fully redeemed in July 2014.

#### *Financing Activities*

Cash used for financing activities for the nine months ended September 30, 2014, primarily represents \$62.2 million of repurchases of common stock, \$60.0 million for the repayment of the 2014 Convertible Notes in the third quarter 2014, \$43.6 million of dividends paid to JCG shareholders and \$38.9 million for the repayment of the 2014 Senior Notes in the second quarter 2014.

Cash used for financing activities for the nine months ended September 30, 2013, primarily represents \$34.1 million for the purchase of noncontrolling interests, \$26.5 million of dividends paid to JCG shareholders, \$22.2 million of repurchases of common stock, \$16.1 million for the purchase of a convertible senior note hedge and \$8.9 million related to the open market repurchase of outstanding 2017 Senior Notes partially offset by \$10.5 million of proceeds from the issuance of stock warrants.

#### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The Company has had no material changes in its exposure to market risks from that previously reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

#### **Item 4. Controls and Procedures**

As of September 30, 2014, JCG's management evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Disclosure controls and procedures are designed by the Company to seek to ensure that it records, processes, summarizes and reports in a timely manner the information it must disclose in reports that it files with or submits to the U.S. Securities and Exchange Commission. Richard M. Weil, Chief Executive Officer, and Jennifer J. McPeck, Executive Vice President and Chief Financial Officer, reviewed and participated in management's evaluation of the disclosure controls and procedures. Based on this evaluation, Mr. Weil and Ms. McPeck concluded that as of the date of their evaluation, JCG's disclosure controls and procedures were effective.

There has been no change in JCG's internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the third quarter 2014 that has materially affected, or is reasonably likely to materially affect, JCG's internal controls over financial reporting.

## **PART II — OTHER INFORMATION**

### **Item 1. Legal Proceedings**

See Part I, Item 1. Financial Statements, Note 11 — Litigation and Other Regulatory Matters.

### **Item 1A. Risk Factors**

The Company has had no material changes in its risk factors from those previously reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

### Common Stock Repurchases

JCG's Board of Directors authorized a \$500 million share repurchase program in July 2008. JCG did not repurchase any of its common stock from the end of 2008 through the end of 2011. As part of its capital and liquidity management, JCG resumed share repurchases in the first quarter 2012.

During the nine months ended September 30, 2014, JCG repurchased 5,198,292 shares of its common stock at an average price of \$11.79 per share and a total cost of \$61.3 million as part of the share repurchase program. Any future repurchases of common stock will depend on prevailing market conditions, the Company's liquidity requirements, contractual and legal restrictions, and other factors.

In addition to the share repurchase program, JCG repurchased 77,867 shares in February 2014, 2,234 shares in April 2014 and 2,052 shares in July 2014 from employees as part of a share withholding program to satisfy the employees' minimum statutory income tax liabilities attributable to the vesting of restricted stock.

<u>Period</u>	<u>Total number of shares (or units) purchased</u>	<u>Average price paid per share (or unit)</u>	<u>Total number of shares (or units) purchased as part of publicly announced plans or programs</u>	<u>Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs (end of month)</u>
January	—	n/a	—	\$ 472 million
February	458,967	\$ 10.92	381,100	\$ 468 million
March	573,932	\$ 11.02	573,932	\$ 461 million
April	582,934	\$ 11.33	580,700	\$ 455 million
May	796,860	\$ 11.75	796,860	\$ 445 million
June	770,900	\$ 12.22	770,900	\$ 436 million
July	782,652	\$ 12.40	780,600	\$ 426 million
August	652,000	\$ 11.92	652,000	\$ 419 million
September	662,200	\$ 12.04	662,200	\$ 411 million
<b>Total</b>	<b><u>5,280,445</u></b>	<b>\$ 11.78</b>	<b><u>5,198,292</u></b>	

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## Item 6. Exhibits

31.1	Certification of Richard M. Weil, Chief Executive Officer of Registrant
31.2	Certification of Jennifer J. McPeek, Executive Vice President and Chief Financial Officer of Registrant
32.1	Certification of Richard M. Weil, Chief Executive Officer of Registrant, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Jennifer J. McPeek, Executive Vice President and Chief Financial Officer of Registrant, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Insurance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: October 23, 2014

Janus Capital Group Inc.

/s/ Richard M. Weil

Richard M. Weil,  
Director and Chief Executive Officer  
(Principal Executive Officer)

/s/ Jennifer J. McPeek

Jennifer J. McPeek,  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

/s/ Brennan A. Hughes

Brennan A. Hughes,  
Senior Vice President,  
Chief Accounting Officer and Treasurer  
(Principal Accounting Officer)

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### JANUS CAPITAL GROUP INC. INDEX TO EXHIBITS

<u>Exhibit No.</u>	<u>Document</u>	<u>Regulation S-K Item 601(b) Exhibit No.</u>
31.1	Certification of Richard M. Weil, Chief Executive Officer of Registrant	31
31.2	Certification of Jennifer J. McPeek, Executive Vice President and Chief Financial Officer of Registrant	31
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101.LAB	XBRL Taxonomy Extension Label Linkbase Document	101

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## Section 2: EX-31.1 (EX-31.1)

**Exhibit 31.1**

### CERTIFICATION

I, Richard M. Weil, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Janus Capital Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Richard M. Weil  
Richard M. Weil

Chief Executive Officer

Date: October 23, 2014

A signed original of this written statement required by Section 302 has been provided to Janus Capital Group Inc. and will be retained by Janus Capital Group Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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## Section 3: EX-31.2 (EX-31.2)

**Exhibit 31.2**

### CERTIFICATION

I, Jennifer J. McPeek, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Janus Capital Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Jennifer J. McPeek

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Jennifer J. McPeek  
Executive Vice President and  
Chief Financial Officer

Date: October 23, 2014

A signed original of this written statement required by Section 302 has been provided to Janus Capital Group Inc. and will be retained by Janus Capital Group Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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## Section 4: EX-32.1 (EX-32.1)

Exhibit 32.1

### CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Janus Capital Group Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard M. Weil, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Richard M. Weil  

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Richard M. Weil  
Chief Executive Officer

Date: October 23, 2014

A signed original of this written statement required by Section 906 has been provided to Janus Capital Group Inc. and will be retained by Janus Capital Group Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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## Section 5: EX-32.2 (EX-32.2)

Exhibit 32.2

### CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Janus Capital Group Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jennifer J. McPeek, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jennifer J. McPeek

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Jennifer J. McPeek  
Executive Vice President and  
Chief Financial Officer

Date: October 23, 2014

A signed original of this written statement required by Section 906 has been provided to Janus Capital Group Inc. and will be retained by Janus Capital Group Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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