

WADDELL & REED FINANCIAL INC
Form 10-Q
May 02, 2014
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 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 001-13913

WADDELL & REED FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

51-0261715
(I.R.S. Employer
Identification No.)

6300 Lamar Avenue

Overland Park, Kansas 66202

(Address, including zip code, of Registrant's principal executive offices)

(913) 236-2000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes No .

Shares outstanding of each of the registrant's classes of common stock as of the latest practicable date:

Class

Outstanding as of April 17, 2014

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Class A common stock, \$.01 par value

85,227,949

Table of Contents

WADDELL & REED FINANCIAL, INC.
INDEX TO QUARTERLY REPORT ON FORM 10-Q
Quarter Ended March 31, 2014

	Page No.
<u>Part I.</u> <u>Financial Information</u>	
<u>Item 1.</u> <u>Financial Statements (unaudited)</u>	
<u>Consolidated Balance Sheets at</u> <u>March 31, 2014 and December 31, 2013</u>	3
<u>Consolidated Statements of Income</u> <u>for the three months ended March 31, 2014 and March 31, 2013</u>	4
<u>Consolidated Statements of Comprehensive Income</u> <u>for the three months ended March 31, 2014 and March 31, 2013</u>	5
<u>Consolidated Statement of Stockholders' Equity</u> <u>for the three months ended March 31, 2014</u>	6
<u>Consolidated Statements of Cash Flows</u> <u>for the three months ended March 31, 2014 and March 31, 2013</u>	7
<u>Notes to the Unaudited Consolidated Financial Statements</u>	8
<u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	29
<u>Item 4.</u> <u>Controls and Procedures</u>	29
<u>Part II.</u> <u>Other Information</u>	
<u>Item 1.</u> <u>Legal Proceedings</u>	30
<u>Item 1A.</u> <u>Risk Factors</u>	30
<u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	30
<u>Item 6.</u> <u>Exhibits</u>	31
<u>Signatures</u>	32

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****WADDELL & REED FINANCIAL, INC. AND SUBSIDIARIES**

Consolidated Balance Sheets

(in thousands)

	March 31, 2014 (unaudited)	December 31, 2013
Assets:		
Cash and cash equivalents	\$ 520,742	487,845
Cash and cash equivalents - restricted	102,161	121,419
Investment securities	199,919	201,348
Receivables:		
Funds and separate accounts	35,914	36,467
Customers and other	128,230	141,763
Deferred income taxes	5,353	7,654
Income taxes receivable		419
Prepaid expenses and other current assets	12,164	9,410
Total current assets	1,004,483	1,006,325
Property and equipment, net	82,804	72,638
Deferred sales commissions, net	82,613	79,894
Goodwill and identifiable intangible assets	161,969	161,969
Deferred income taxes	2,127	3,839
Other non-current assets	14,405	12,300
Total assets	\$ 1,348,401	1,336,965
Liabilities:		
Accounts payable	\$ 17,768	18,821
Payable to investment companies for securities	168,365	214,085
Payable to third party brokers	58,640	59,756
Payable to customers	11,178	8,664
Accrued compensation	58,201	58,677
Other current liabilities	47,353	59,726
Income taxes payable	31,065	
Total current liabilities	392,570	419,729
Long-term debt	190,000	190,000
Accrued pension and postretirement costs	11,980	13,333
Other non-current liabilities	24,317	26,561
Total liabilities	618,867	649,623
Commitments and contingencies		
Stockholders' equity:		

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Preferred stock-\$1.00 par value: 5,000 shares authorized; none issued		
Class A Common stock-\$0.01 par value: 250,000 shares authorized; 99,701 shares issued; 84,874 shares outstanding (85,236 at December 31, 2013)	997	997
Additional paid-in capital	283,695	267,406
Retained earnings	896,601	850,600
Cost of 14,827 common shares in treasury (14,465 at December 31, 2013)	(435,548)	(415,802)
Accumulated other comprehensive loss	(16,211)	(15,859)
Total stockholders' equity	729,534	687,342
Total liabilities and stockholders' equity	\$ 1,348,401	1,336,965

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents**WADDELL & REED FINANCIAL, INC. AND SUBSIDIARIES**

Consolidated Statements of Income

(Unaudited, in thousands, except for per share data)

	For the three months ended March 31,	
	2014	2013
Revenues:		
Investment management fees	\$ 188,037	148,445
Underwriting and distribution fees	165,267	135,419
Shareholder service fees	37,112	32,691
Total	390,416	316,555
Operating expenses:		
Underwriting and distribution	194,951	161,571
Compensation and related costs (including share-based compensation of \$13,086 and \$11,676, respectively)	50,009	48,155
General and administrative	23,756	16,208
Subadvisory fees	1,877	4,484
Depreciation	3,249	3,227
Total	273,842	233,645
Operating income	116,574	82,910
Investment and other income	3,900	4,377
Interest expense	(2,755)	(2,854)
Income before provision for income taxes	117,719	84,433
Provision for income taxes	42,855	30,570
Net income	\$ 74,864	53,863
Net income per share, basic and diluted:	\$ 0.88	0.63
Weighted average shares outstanding:		
Basic	85,019	85,592
Diluted	85,019	85,593

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents**WADDELL & REED FINANCIAL, INC. AND SUBSIDIARIES**

Consolidated Statements of Comprehensive Income

(Unaudited, in thousands)

	For the three months ended March 31,	
	2014	2013
Net income	\$ 74,864	53,863
Other comprehensive income:		
Unrealized appreciation (depreciation) of available for sale investment securities during the period, net of income tax expense of \$(2) and \$9, respectively	(699)	2,778
Pension and postretirement benefits, net of income tax expense of \$205 and \$558, respectively	347	846
Comprehensive income	\$ 74,512	57,487

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents**WADDELL & REED FINANCIAL, INC. AND SUBSIDIARIES**

Consolidated Statement of Stockholders' Equity

For the Three Months Ended March 31, 2014

(Unaudited, in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2013	99,701	\$ 997	267,406	850,600	(415,802)	(15,859)	687,342
Net income				74,864			74,864
Recognition of equity compensation			13,086				13,086
Net issuance/forfeiture of nonvested shares			2,071		(2,071)		
Dividends accrued, \$0.34 per share				(28,863)			(28,863)
Excess tax benefits from share-based payment arrangements			1,132				1,132
Repurchase of common stock					(17,675)		(17,675)
Other comprehensive loss						(352)	(352)
Balance at March 31, 2014	99,701	\$ 997	283,695	896,601	(435,548)	(16,211)	729,534

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents**WADDELL & REED FINANCIAL, INC. AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

(Unaudited, in thousands)

	For the three months ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 74,864	53,863
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,330	3,497
Amortization of deferred sales commissions	16,120	13,668
Share-based compensation	13,086	11,676
Excess tax benefits from share-based payment arrangements	(1,132)	(712)
Gain on sale of available for sale investment securities	(1,182)	(2,426)
Net purchases and sales or maturities of trading securities	479	1,012
Gain on trading securities	(1,961)	(2,166)
Loss on sale and retirement of property and equipment	410	49
Capital gains and dividends reinvested	(4)	(40)
Deferred income taxes	3,809	2,065
Changes in assets and liabilities:		
Cash and cash equivalents - restricted	19,258	(61,650)
Other receivables	13,533	40,832
Payable to investment companies for securities and payable to customers	(43,206)	16,516
Receivables from funds and separate accounts	553	(9,233)
Other assets	2,044	(3,721)
Deferred sales commissions	(18,839)	(16,174)
Accounts payable and payable to third party brokers	(2,169)	(925)
Other liabilities	9,942	15,002
Net cash provided by operating activities	\$ 88,935	61,133
Cash flows from investing activities:		
Purchases of available for sale investment securities	(16,826)	(55,350)
Proceeds from sales and maturities of available for sale investment securities	20,142	62,020
Additions to property and equipment	(13,825)	(3,088)
Disposition of companies		22,000
Net cash provided by (used in) investing activities	\$ (10,509)	25,582
Cash flows from financing activities:		
Dividends paid	(28,986)	(23,973)
Repurchase of common stock	(17,675)	(3,422)
Exercise of stock options		135
Excess tax benefits from share-based payment arrangements	1,132	712
Net cash used in financing activities	\$ (45,529)	(26,548)
Net increase in cash and cash equivalents	32,897	60,167
Cash and cash equivalents at beginning of period	487,845	330,330
Cash and cash equivalents at end of period	\$ 520,742	390,497

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

WADDELL & REED FINANCIAL, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Significant Accounting Policies

Waddell & Reed Financial, Inc. and Subsidiaries

Waddell & Reed Financial, Inc. and subsidiaries (hereinafter referred to as the Company, we, our and us) derive revenues from investment management services, investment product underwriting and distribution, and shareholder services administration provided to the Waddell & Reed Advisors Group of Mutual Funds (the Advisors Funds), Ivy Funds (the Ivy Funds), Ivy Funds Variable Insurance Portfolios (the Ivy Funds VIP) and InvestEd Portfolios (InvestEd) (collectively, the Advisors Funds, Ivy Funds, Ivy Funds VIP and InvestEd are referred to as the Funds), and institutional and separately managed accounts. The Funds and the institutional and separately managed accounts operate under various rules and regulations set forth by the United States Securities and Exchange Commission (the SEC). Services to the Funds are provided under investment management agreements, underwriting agreements and shareholder servicing and accounting service agreements that set forth the fees to be charged for these services. The majority of these agreements are subject to annual review and approval by each Fund 's board of trustees. Our revenues are largely dependent on the total value and composition of assets under management. Accordingly, fluctuations in financial markets and composition of assets under management can significantly impact revenues and results of operations.

Basis of Presentation

We have prepared the accompanying unaudited consolidated financial statements included herein pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations, although we believe that the disclosures are adequate to enable a reasonable understanding of the information presented. The information in this Quarterly Report on Form 10-Q should be read in conjunction with Part I, Item 2 Management 's Discussion and Analysis of Financial Condition and Results of Operations and our audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2013 (the 2013 Form 10-K). Certain amounts in the prior years ' financial statements have been reclassified for consistent presentation.

The accompanying unaudited consolidated financial statements are prepared consistently with the accounting policies described in Note 2 to the consolidated financial statements included in our 2013 Form 10-K, which include the following: use of estimates, cash and cash equivalents, disclosures about fair value of financial instruments, investment securities and investments in affiliated mutual funds, property and equipment, software developed for internal use, goodwill and identifiable intangible assets, deferred sales commissions, revenue recognition, advertising and promotion, share-based compensation and accounting for income taxes.

In our opinion, the accompanying unaudited consolidated financial statements reflect all adjustments (consisting of only a normal and recurring nature) necessary to present fairly our financial position at March 31, 2014, the results of operations for the three months ended March 31, 2014 and 2013, and cash flows for the three months ended March 31, 2014 and 2013 in conformity with accounting principles generally accepted in the United States.

2. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and short-term investments. We consider all highly liquid investments with maturities upon acquisition of 90 days or less to be cash equivalents. Cash and cash equivalents restricted represents cash held for the benefit of customers segregated in compliance with federal and other regulations.

Table of Contents**3. Investment Securities**

Investment securities at March 31, 2014 and December 31, 2013 are as follows:

March 31, 2014	Amortized cost	Unrealized gains (in thousands)	Unrealized losses	Fair value
Available for sale securities:				
Corporate bonds	\$ 11,190	28		11,218
Affiliated mutual funds	115,574	5,172	(898)	119,848
	\$ 126,764	5,200	(898)	131,066
Trading securities:				
Mortgage-backed securities				35
Corporate bonds				9,369
Common stock				56
Affiliated mutual funds				59,393
				68,853
Total investment securities				\$ 199,919
December 31, 2013	Amortized cost	Unrealized gains (in thousands)	Unrealized losses	Fair value
Available for sale securities:				
Mortgage-backed securities	\$ 8	1		9
Corporate bonds	14,568	61		14,629
Affiliated mutual funds	87,710	5,899	(957)	92,652
	\$ 102,286	5,961	(957)	107,290
Trading securities:				
Mortgage-backed securities				37
Municipal bonds				501
Corporate bonds				9,412
Common stock				60
Affiliated mutual funds				84,048
				94,058
Total investment securities				\$ 201,348

Purchases of trading securities during the three months ended March 31, 2014 were \$27.3 million. Sales and maturities of trading securities were \$27.7 million for the same period.

Table of Contents

A summary of available for sale affiliated mutual funds with fair values below carrying values at March 31, 2014 and December 31, 2013 is as follows:

March 31, 2014	Less than 12 months		12 months or longer		Fair value	Total Unrealized losses
	Fair value	Unrealized losses	Fair value	Unrealized losses		
Affiliated mutual funds	\$ 57,964	(883)	217	(15)	58,181	(898)
Total temporarily impaired securities	\$ 57,964	(883)	217	(15)	58,181	(898)

December 31, 2013	Less than 12 months		12 months or longer		Fair value	Total Unrealized losses
	Fair value	Unrealized losses	Fair value	Unrealized losses		
Affiliated mutual funds	\$ 29,598	(939)	213	(18)	29,811	(957)
Total temporarily impaired securities	\$ 29,598	(939)	213	(18)	29,811	(957)

Based upon our assessment of these affiliated mutual funds, the time frame investments have been in a loss position, and our intent to hold affiliated mutual funds until they have recovered, we determined that a write-down was not necessary at March 31, 2014.

Corporate bonds accounted for as available for sale and held as of March 31, 2014 mature as follows:

	Amortized cost	Fair value
Within one year	\$ 11,190	11,218
	\$ 11,190	11,218

Mortgage-backed securities and corporate bonds accounted for as trading and held as of March 31, 2014 mature as follows:

	Fair value
Within one year	\$ 9,369
After five years but within 10 years	35
	\$ 9,404

Table of Contents

Accounting standards establish a framework for measuring fair value and a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of the asset. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset. An individual investment's fair value measurement is assigned a level based upon the observability of the inputs that are significant to the overall valuation. The three-tier hierarchy of inputs is summarized as follows:

- Level 1 Investments are valued using quoted prices in active markets for identical securities.

- Level 2 Investments are valued using other significant observable inputs, including quoted prices in active markets for similar securities.

- Level 3 Investments are valued using significant unobservable inputs, including the Company's own assumptions in determining the fair value of investments.

Assets classified as Level 2 can have a variety of observable inputs. These observable inputs are collected and utilized, primarily by an independent pricing service, in different evaluated pricing approaches depending upon the specific asset to determine a value. The fair value of municipal bonds is measured based on pricing models that take into account, among other factors, information received from market makers and broker/dealers, current trades, bid-wants lists, offerings, market movements, the callability of the bond, state of issuance and benchmark yield curves. The fair value of corporate bonds is measured using various techniques, which consider recently executed transactions in securities of the issuer or comparable issuers, market price quotations (where observable), bond spreads and fundamental data relating to the issuer. The fair value of equity derivatives is measured based on active market broker quotes, evaluated broker quotes and evaluated prices from vendors.

Securities values classified as Level 3 are primarily determined through the use of a single quote (or multiple quotes) from dealers in the securities using proprietary valuation models. These quotes involve significant unobservable inputs, and thus, the related securities are classified as Level 3 securities.

The following tables summarize our investment securities as of March 31, 2014 and December 31, 2013 that are recognized in our consolidated balance sheets using fair value measurements based on the differing levels of inputs.

March 31, 2014	Level 1	Level 2 (in thousands)	Level 3	Total
Mortgage-backed securities	\$	35		35
Corporate bonds		20,587		20,587
Common stock		56		56
Affiliated mutual funds		179,241		179,241
Total	\$	179,297	20,622	199,919

December 31, 2013	Level 1	Level 2 (in thousands)	Level 3	Total
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Mortgage-backed securities	\$	46	46
Municipal bonds		501	501
Corporate bonds		24,041	24,041
Common stock		60	60
Affiliated mutual funds		176,700	176,700
Total	\$	176,760	201,348

Table of Contents**4. Goodwill and Identifiable Intangible Assets**

Goodwill represents the excess of purchase price over the tangible assets and identifiable intangible assets of an acquired business. Our goodwill is not deductible for tax purposes. Goodwill and identifiable intangible assets (all considered indefinite lived) are as follows:

	March 31, 2014	December 31, 2013
	(in thousands)	
Goodwill	\$ 106,970	106,970
Mutual fund management advisory contracts	38,699	38,699
Mutual fund management subadvisory contracts	16,300	16,300
Total identifiable intangible assets	54,999	54,999
Total	\$ 161,969	161,969

5. Indebtedness

Debt is reported at its carrying amount in the consolidated balance sheets. The fair value of the Company's outstanding indebtedness is approximately \$205.0 million at March 31, 2014 compared to the carrying value of \$190.0 million. Fair value is calculated based on Level 2 inputs.

6. Income Tax Uncertainties

As of January 1, 2014 and March 31, 2014, the Company had unrecognized tax benefits, including penalties and interest, of \$12.0 million (\$8.4 million net of federal benefit) and \$12.6 million (\$8.8 million net of federal benefit), respectively, that if recognized, would impact the Company's effective tax rate. The unrecognized tax benefits that are not expected to be settled within the next 12 months are included in other liabilities in the accompanying consolidated balance sheets; unrecognized tax benefits that are expected to be settled within the next 12 months are included in income taxes payable.

The Company's accounting policy with respect to interest and penalties related to income tax uncertainties is to classify these amounts as income taxes. As of January 1, 2014, the total amount of accrued interest and penalties related to uncertain tax positions recognized in the consolidated balance sheet was \$3.0 million (\$2.5 million net of federal benefit). The total amount of penalties and interest, net of federal benefit, related to income tax uncertainties recognized in the statement of income for the three month period ended March 31, 2014 was \$0.1 million. The total amount of accrued penalties and interest related to uncertain tax positions at March 31, 2014 of \$3.1 million (\$2.6 million net of federal benefit) is included in the total unrecognized tax benefits described above.

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In the ordinary course of business, many transactions occur for which the ultimate tax outcome is uncertain. In addition, respective tax authorities periodically audit our income tax returns. These audits examine our significant tax filing positions, including the timing and amounts of deductions and the allocation of income among tax jurisdictions. The 2010, 2011, 2012 and 2013 federal income tax returns are open tax years that remain subject to potential future audit. State income tax returns for all years after 2009 and, in certain states, income tax returns prior to 2010, are subject to potential future audit by tax authorities in the Company's major state tax jurisdictions.

The Company is currently being audited in various state jurisdictions. It is reasonably possible that the Company will settle the audits in these jurisdictions within the next 12-month period. It is estimated that the Company's liability for unrecognized tax benefits, including penalties and interest, could decrease by up to \$2.9 million (up to \$1.9 million net of federal benefit) upon settlement of these audits. Such settlements are not anticipated to have a significant impact on the results of operations.

Table of Contents**7. Pension Plan and Postretirement Benefits Other Than Pension**

We provide a non-contributory retirement plan that covers substantially all employees and certain vested employees of our former parent company (the Pension Plan). Benefits payable under the Pension Plan are based on employees' years of service and compensation during the final 10 years of employment. We also sponsor an unfunded defined benefit postretirement medical plan that covers substantially all employees, as well as Waddell & Reed advisors, who are independent contractors. The medical plan is contributory with participant contributions adjusted annually. The medical plan does not provide for post age 65 benefits with the exception of a small group of employees that were grandfathered when such plan was established.

The components of net periodic pension and other postretirement costs related to these plans are as follows:

	Pension Benefits Three months ended March 31,		Other Postretirement Benefits Three months ended March 31,	
	2014	2013	2014	2013
	(in thousands)			
Components of net periodic benefit cost:				
Service cost	\$ 2,725	2,950	180	197
Interest cost	2,153	1,952	99	90
Expected return on plan assets	(3,413)	(2,704)		
Actuarial (gain) loss amortization	411	1,250	(4)	
Prior service cost amortization	130	139	14	14
Transition obligation amortization	1	1		
Total(1)	\$ 2,007	3,588	289	301

(1) Approximately 60% of net periodic pension and other postretirement benefit costs are included in Compensation and related costs on the consolidated statements of income, while the remainder are included in Underwriting and distribution expense.

During the first quarter of 2014, we contributed \$10.0 million to the Pension Plan and contributed an additional \$10.0 million in April 2014. We do not expect to make additional contributions for the remainder of 2014.

Table of Contents**8. Stockholders Equity***Earnings per Share*

The components of basic and diluted earnings per share were as follows:

	Three months ended March 31,	
	2014	2013
	(in thousands, except per share amounts)	
Net income from continuing operations	\$ 74,864	53,863
Weighted average shares outstanding - basic	85,019	85,592
Dilutive potential shares from stock options		1
Weighted average shares outstanding - diluted	85,019	85,593
Earnings per share from continuing operations, basic and diluted	\$ 0.88	0.63

Dividends

On February 13, 2014, the Board of Directors (the Board) approved a dividend on our common stock in the amount of \$0.34 per share to stockholders of record as of April 14, 2014 to be paid on May 1, 2014. The total dividend to be paid is approximately \$28.9 million and is included in other current liabilities in the consolidated balance sheet at March 31, 2014.

Common Stock Repurchases

The Board has authorized the repurchase of our common stock in the open market and/or private purchases. The acquired shares may be used for corporate purposes, including shares issued to employees in our stock-based compensation programs.

There were 280,186 shares and 81,701 shares repurchased in the open market or privately during the three months ended March 31, 2014 and 2013, respectively, which included 2,667 shares and 2,601 shares, respectively, repurchased from employees tendering shares to cover their minimum income tax withholdings with respect to vesting of stock awards during these two periods.

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In April 2014, the Company repurchased 386,165 shares from employees tendering shares to cover their minimum income tax withholdings with respect to vesting of stock awards during the period.

Table of Contents*Accumulated Other Comprehensive Income (Loss)*

The following tables summarize other comprehensive income (loss) activity for the periods ended March 31, 2014 and March 31, 2013.

	Unrealized gains on investment securities	Change in valuation allowance for unrealized gains (losses) on investment securities (in thousands)	Pension and postretirement benefits	Total accumulated other comprehensive income (loss)
Balance at December 31, 2013	\$ 3,150	810	(19,819)	(15,859)
Other comprehensive income before reclassification	307	176		483
Amount reclassified from accumulated other comprehensive income	(748)	(434)	347	(835)
Net current period other comprehensive income (loss)	(441)	(258)	347	(352)
Balance at March 31, 2014	\$ 2,709	\$ 552	(19,472)	(16,211)

	Unrealized gains on investment securities	Change in valuation allowance for unrealized gains (losses) on investment securities (in thousands)	Pension and postretirement benefits	Total accumulated other comprehensive income (loss)
Balance at December 31, 2012	\$ 1,823	32	(48,652)	(46,797)
Other comprehensive income before reclassification	3,279	1,934		5,213
Amount reclassified from accumulated other comprehensive income	(1,535)	(900)	846	(1,589)
Net current period other comprehensive income	1,744	1,034	846	3,624
Balance at March 31, 2013	\$ 3,567	\$ 1,066	(47,806)	(43,173)

Table of Contents

Reclassifications from accumulated other comprehensive income (loss) and included in net income are summarized in the tables that follow.

For the three months ended March 31, 2014				
	Pre-tax	Tax (expense) benefit (in thousands)	Net of tax	Statement of income line item
Reclassifications included in net income:				
Realized gain on sale of available for sale investment securities	\$ 1,182	(434)	748	Investment and other income
Valuation allowance		434	434	Provision for income taxes
Amortization of pension and postretirement benefits	(552)	205	(347)	Underwriting and distribution expense and Compensation and related costs
Total	\$ 630	205	835	

For the three months ended March 31, 2013				
	Pre-tax	Tax (expense) benefit (in thousands)	Net of tax	Statement of income line item
Reclassifications included in net income:				
Realized gain on sale of available for sale investment securities	\$ 2,426	(891)	1,535	Investment and other income
Valuation allowance		900	900	Provision for income taxes
Amortization of pension and postretirement benefits	(1,404)	558	(846)	Underwriting and distribution expense and Compensation and related costs
Total	\$ 1,022	567	1,589	

9. Share-Based Compensation

In the first quarter of 2014, we granted 38,365 shares of nonvested stock with a fair value of \$67.13 per share under the Company's 1998 Stock Incentive Plan, as amended and restated (the "SI Plan"). The value of those shares at the grant date, aggregating to \$2.6 million, will generally be amortized to expense over a four year vesting period.

On April 2, 2014, we granted 742,141 shares of nonvested stock with a fair value of \$75.96 per share under the SI Plan. The value of those shares at the grant date, aggregating to \$56.4 million, will generally be amortized to expense over a four year vesting period.

10. Contingencies

The Company is involved from time to time in various legal proceedings, regulatory investigations and claims incident to the normal conduct of business, which may include proceedings that are specific to us and others generally applicable to business practices within the industries in which we operate. A substantial legal liability or a significant regulatory action against us could have an adverse effect on our business,

financial condition and on the results of operations in a particular quarter or year.

The Company accrues an undiscounted liability for those contingencies where the incurrence of a loss is probable, and the amount can be reasonably estimated. These amounts are not reduced by amounts that may be recovered under insurance or claims against third parties, but undiscounted receivables from insurers or other third parties may be accrued separately. The Company regularly revises such accruals in light of new information. For contingencies where an unfavorable outcome is reasonably possible and that are

Table of Contents

significant, the Company discloses the nature of the contingency and, where feasible, an estimate of the possible loss. For purposes of our litigation contingency disclosures, significant includes material matters as well as other items that management believes should be disclosed. Management judgment is required related to contingent liabilities and the outcome of litigation because both are difficult to predict.

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

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which reflect the current views and assumptions of management with respect to future events regarding our business and industry in general. These forward-looking statements include all statements, other than statements of historical fact, regarding our financial position, business strategy and other plans and objectives for future operations, including statements with respect to revenues and earnings, the amount and composition of assets under management, distribution sources, expense levels, redemption rates and the financial markets and other conditions. These statements are generally identified by the use of such words as may, could, should, would, believe, anticipate, forecast, estimate, expect, intend, plan, project, outlook, statements of a future or forward-looking nature. Readers are cautioned that any forward-looking information provided by or on behalf of the Company is not a guarantee of future performance. Actual results may differ materially from those contained in these forward-looking statements as a result of various factors, including but not limited to those discussed below. If one or more events related to these or other risks, contingencies or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from those forecasted or expected. Certain important factors that could cause actual results to differ materially from our expectations are disclosed in the Risk Factors section of our Annual Report on Form 10-K for the year ended December 31, 2013, which include, without limitation:

- *The loss of existing distribution channels or inability to access new distribution channels;*

- *A reduction in assets under our management on short notice, through increased redemptions in our distribution channels or our Funds, particularly those Funds with a high concentration of assets, or investors terminating their relationship with us or shifting their funds to other types of accounts with different rate structures;*

- *The adverse ruling or resolution of any litigation, regulatory investigations and proceedings, or securities arbitrations by a federal or state court or regulatory body;*

- *The introduction of legislative or regulatory proposals or judicial rulings that change the independent contractor classification of our financial advisors at the federal or state level for employment tax or other employee benefit purposes;*

- *Our inability to provide sufficient capital to support new investment products;*

- *The ability of mutual fund and other investors to redeem their investments without prior notice or on short notice;*

- *Our inability to implement new information technology and systems, or inability to complete such implementation in a timely or cost effective manner;*
- *Non-compliance with applicable laws or regulations and changes in current legal, regulatory, accounting, tax or compliance requirements or governmental policies; and*
- *A decline in the securities markets or in the relative investment performance of our Funds and other investment portfolios and products as compared to competing funds.*
- *Our inability to attract and retain senior executive management and other key personnel to conduct our broker/dealer, fund management and investment advisory business.*

The foregoing factors should not be construed as exhaustive and should be read together with other cautionary statements included in this and other reports and filings we make with the Securities and Exchange Commission, including the information in Item 1 Business and Item 1A Risk Factors of Part I and Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations of Part II to our Annual Report on Form 10-K for the year ended December 31, 2013 and as updated in our quarterly reports on Form 10-Q for the year ending December 31, 2014. All forward-looking statements

Table of Contents

speaking only as of the date on which they are made and we undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

Founded in 1937, we are one of the oldest mutual fund complexes in the United States, with expertise in a broad range of investment styles and across a variety of market environments. Our earnings and cash flows are heavily dependent on financial market conditions. Significant increases or decreases in the various securities markets can have a material impact on our results of operations, financial condition and cash flows.

We derive our revenues from providing investment management services, investment product underwriting and distribution, and shareholder services administration to mutual funds and institutional and separately managed accounts. Investment management fees are based on the amount of average assets under management and are affected by sales levels, financial market conditions, redemptions and the composition of assets. Our underwriting and distribution revenues consist of Rule 12b-1 asset-based service and distribution fees, fees earned on fee-based asset allocation products and related advisory services, distribution fees on certain variable products, and commissions derived from sales of investment and insurance products. The products sold have various commission structures and the revenues received from those sales vary based on the type and amount sold. Shareholder service fee revenue includes transfer agency fees, custodian fees from retirement plan accounts, portfolio accounting and administration fees, and is earned based on assets under management or number of client accounts. Our major expenses are underwriting and distribution-related commissions, employee compensation, field support, dealer services expense and information technology expense.

One of our distinctive qualities is that we distribute our investment products through a balanced distribution network. Our retail products are distributed through our Wholesale channel, which includes third-parties such as other broker/dealers, registered investment advisors and various retirement platforms, and through our Advisors channel sales force of independent financial advisors. Through the Institutional channel, we serve as sub-advisor for domestic and foreign distributors of investment products and manage investments for pension funds, Taft-Hartley plans and endowments.

Table of Contents

First Quarter Highlights

- We introduced the Ivy Emerging Market Equity Fund to offer investors a single fund for emerging-market equities investments in any region of the world. The creation of the fund was a two-step process that began with expanding the Fund's investment mandate from its predecessor, Ivy Pacific Opportunities Fund, and merging into it the former Ivy Asset Strategy New Opportunities Fund.
- Barron's Best Mutual Fund Families named Ivy Funds as Best Mutual Fund Family over the 10-year period ended December 31, 2013, out of 48 firms.
- Lipper selected five funds for recognition among peer funds for their strong risk-adjusted performance. Three funds were ranked in the 10-year category and two funds were ranked in the 3-year category.
- Operating revenues increased \$73.9 million, or 23%, compared to the first three months of 2013.
- Net income increased 39% compared to the first quarter of 2013, and our operating margin was 29.9%, an improvement from 26.2% for the same period a year ago.
- Our assets under management increased 4% during the quarter, from \$126.5 billion to \$131.4 billion, driven by inflows.
- Company-wide sales exceeded \$100.0 million for eleven investment strategies, including four investment strategies for which sales exceeded \$1.0 billion. Of the total, seven of the investment strategies with sales greater than \$100.0 million and three of the investment strategies with sales in excess of \$1.0 billion were in the Wholesale channel.
- Sales increased 48% to \$10.0 billion for the first quarter of 2014 compared to the same period in 2013.
- Inflows of \$4.7 billion represent an annualized organic growth rate of 15%.
- Our balance sheet remains solid, and we ended the quarter with cash and investments of \$720.7 million.

Table of Contents**Assets Under Management**

During the first quarter, assets under management increased to \$131.4 billion compared to \$126.5 billion on December 31, 2013 due to inflows of \$4.7 billion.

Change in Assets Under Management(1)

	Wholesale	First Quarter 2014		Total
		Advisors (in millions)	Institutional	
Beginning Assets	\$ 67,055	43,667	15,821	126,543
Sales(2)	7,017	1,435	1,554	10,006
Redemptions	(3,562)	(1,106)	(679)	(5,347)
Net Exchanges	112	(112)		
Net Flows	3,567	217	875	4,659
Market Appreciation (Depreciation)	(155)	340	(4)	181
Ending Assets	\$ 70,467	44,224	16,692	131,383

	Wholesale	First Quarter 2013		Total
		Advisors (in millions)	Institutional	
Beginning Assets	\$ 48,930	35,660	11,775	96,365
Sales(2)	5,042	1,303	430	6,775
Redemptions	(3,157)	(1,047)	(469)	(4,673)
Net Exchanges	66	(66)		
Net Flows	1,951	190	(39)	2,102
Market Appreciation	2,373	2,065	890	5,328
Ending Assets	\$ 53,254	37,915	12,626	103,795

(1) Includes all activity of the Funds and institutional and separate accounts, including money market funds and transactions at net asset value, accounts for which we receive no commissions.

(2) Sales is primarily gross sales (net of sales commission). This amount also includes net reinvested dividends and capital gains and investment income.

Table of Contents

Average assets under management, which are generally more indicative of trends in revenue for providing investment management services than the quarter over quarter change in ending assets under management, are presented below.

Average Assets Under Management

Asset Class:	Wholesale	First Quarter 2014		Total
		Advisors	Institutional (in millions)	
Equity	\$ 55,051	32,448	15,536	\$ 103,035
Fixed Income	13,382	9,617	634	23,633
Money Market	184	1,926		2,110
Total	\$ 68,617	43,991	16,170	\$ 128,778

Asset Class:	Wholesale	First Quarter 2013		Total
		Advisors	Institutional (in millions)	
Equity	\$ 41,056	26,257	11,477	\$ 78,790
Fixed Income	10,478	9,597	798	20,873
Money Market	167	1,369		1,536
Total	\$ 51,701	37,223	12,275	\$ 101,199

Results of Operations Three Months Ended March 31, 2014 as Compared with Three Months Ended March 31, 2013*Net Income*

	Three months ended		
	2014	March 31, 2013	Variance
Net Income	\$ 74,864	53,863	39%
Earnings per share, basic and diluted	\$ 0.88	0.63	40%
Operating Margin	29.9%	26.2%	14%

Table of Contents*Total Revenues*

Total revenues increased 23% to \$390.4 million for the three months ended March 31, 2014 compared to the three months ended March 31, 2013 due to an increase in average assets under management of 27% and an increase in sales of 48%.

	Three months ended March 31,		Variance
	2014	2013	
	(in thousands, except percentage data)		
Investment management fees	\$ 188,037	148,445	27%
Underwriting and distribution fees	165,267	135,419	22%
Shareholder service fees	37,112	32,691	14%
Total revenues	\$ 390,416	316,555	23%

Investment Management Fee Revenues

Investment management fee revenues are earned for providing investment advisory services to the Funds and to institutional and separate accounts. Investment management fee revenues increased \$39.6 million, or 27%, from last year's first quarter.

Revenues from investment management services provided to our retail mutual funds, which are distributed through the Wholesale and Advisors channels, were \$174.0 million for the quarter ended March 31, 2014. Revenues increased \$37.1 million, or 27%, compared to the first quarter of 2013, while the related retail average assets increased 27% to \$112.6 billion. Management fee waivers of \$2.8 and \$2.2 million were recorded as an offset to investment management fees for the periods ending March 31, 2014 and March 31, 2013, respectively. Of the total management fee waivers recorded, \$1.9 million was related to money market accounts for the first quarter of 2014 and \$1.4 million was related to money market accounts for the first quarter of 2013.

Institutional account revenues were \$14.0 million for the first quarter of 2014, representing an increase of \$2.4 million, or 21%, from the first quarter of 2013, while average assets increased 32%. Account revenues increased less than the related average assets due to a decline in the average management fee rate. The decline in the average management fee rate was driven by a mix-shift of assets into investment styles and account types with lower management fee rates.

Long-term redemption rates (which exclude money market fund redemptions) in the Wholesale channel were 21.1% in the first quarter of 2014, compared to 24.6% in the first quarter of 2013. In the Advisors channel, long-term redemption rates were 8.2% for the quarter ended March 31, 2014 compared to 9.4% in the first quarter of 2013. We expect the Advisors channel long-term redemption rate to remain lower than that of the industry average due to the personal and customized nature in which our financial advisors provide service to our clients. Long-term redemption rates for our Institutional channel were 17.0% and 15.5% for the first quarter of 2014 and 2013, respectively. Subadvisory accounts comprise more than 70% of the Institutional channel's assets as of March 31, 2014 and, unlike direct advisory accounts, the active daily flows in or out of these accounts can result in an increase in contributions and withdrawals and impact the channel's redemption rate.

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Our overall redemption rate of 16.2% for the first quarter of 2014 compares positively to the current year to date industry average of approximately 24%, based on data from the Investment Company Institute.

Table of Contents*Underwriting and Distribution Fee Revenues and Expenses*

The following tables summarize our underwriting and distribution fee revenues and expenses segregated by distribution method within the respective Wholesale or Advisors channel:

	Wholesale	First Quarter 2014 Advisors (in thousands)	Total
Revenue	\$ 59,564	105,703	165,267
Expenses - Direct	(79,700)	(74,697)	(154,397)
Expenses - Indirect	(11,535)	(29,019)	(40,554)
Net Distribution (Costs)/Excess	\$ (31,671)	1,987	(29,684)

	Wholesale	First Quarter 2013 Advisors (in thousands)	Total
Revenue	\$ 48,175	87,244	135,419
Expenses - Direct	(63,548)	(59,657)	(123,205)
Expenses - Indirect	(11,000)	(27,366)	(38,366)
Net Distribution (Costs)/Excess	\$ (26,373)	221	(26,152)

The following tables summarize the significant components of underwriting and distribution fee revenues segregated by distribution channel:

	Wholesale	First Quarter 2014 Advisors (in thousands)	Total
Underwriting and distribution fee revenues			
Rule 12b-1 service and distribution fees	\$ 56,792	28,931	85,723
Fee-based asset allocation product revenues		47,347	47,347
Sales commissions on front-end load mutual fund and variable annuity sales	2,032	17,132	19,164
Sales commissions on other products		6,361	6,361
Other revenues	740	5,932	6,672
Total	\$ 59,564	105,703	165,267

	Wholesale	First Quarter 2013 Advisors (in thousands)	Total
Underwriting and distribution fee revenues			
Rule 12b-1 service and distribution fees	\$ 46,213	24,795	71,008
		34,907	34,907

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Fee-based asset allocation product revenues			
Sales commissions on front-end load mutual fund and variable annuity sales	1,124	16,680	17,804
Sales commissions on other products		5,646	5,646
Other revenues	838	5,216	6,054
Total	\$ 48,175	87,244	135,419

Table of Contents

Underwriting and distribution revenues earned in the first quarter of 2014 increased by \$29.8 million, or 22%, compared with the first quarter of 2013. Rule 12b-1 asset based service and distribution fees increased \$14.7 million, or 21%, quarter over quarter driven by a 27% increase in average mutual fund assets under management. In our Advisors channel, revenues from fee-based asset allocation products continued to be a meaningful contributor to revenues, increasing to 45% of underwriting and distribution revenues in the first quarter of 2014 compared to 40% in the first quarter of 2013. Fee-based asset allocation assets grew from \$11.2 billion at March 31, 2013 to \$15.1 billion at March 31, 2014 generating an increase of fee-based asset allocation revenue of \$12.4 million, or 36%.

Underwriting and distribution expenses increased by \$33.4 million, or 21%, compared to the first quarter of 2013. Direct expenses in the Wholesale channel increased by \$16.2 million as a result of an increase in average wholesale assets under management and higher sales volume year over year. We incurred higher dealer compensation and Rule 12b-1 asset-based service and distribution expenses paid to third-party distributors and higher wholesaler commissions. In the Advisors channel, direct expenses grew faster than revenue due to increased advisor payouts. Across both channels, indirect expenses increased \$2.2 million, or 6%, compared to the quarter ended March 31, 2013, primarily due to increased employee compensation, computer services and software expenses, and advertising expenses.

Shareholder Service Fee Revenue

Shareholder service fee revenue primarily includes transfer agency fees, custodian fees from retirement plan accounts, and portfolio accounting and administration fees. Transfer agency fees and portfolio accounting and administration fees are asset-based revenues or account-based revenues, while custodian fees from retirement plan accounts are based on the number of client accounts.

During the first quarter of 2014, shareholder service fee revenue increased \$4.4 million, or 14%, over the first quarter of 2013. Asset-based fees increased \$3.5 million, or 32%, for the same time period in the I, Y and R share classes. Assets in the I, Y and R share classes grew from an average of \$21.2 billion at March 31, 2013 to an average of \$30.0 billion at March 31, 2014, representing an increase of 42%. Account-based fees increased \$1.0 million quarter over quarter due to a 6% increase in the number of accounts compared to the first quarter in 2013.

Table of Contents*Total Operating Expenses*

Operating expenses increased \$40.2 million, or 17%, in the first quarter of 2014 compared to the first quarter of 2013, primarily due to increased underwriting and distribution expenses and general and administrative expenses. Underwriting and distribution expenses are discussed above.

	Three Months Ended March 31,		Variance
	2014	2013	
	(in thousands, except percentage data)		
Underwriting and distribution	\$ 194,951	161,571	21%
Compensation and related costs	50,009	48,155	4%
General and administrative	23,756	16,208	47%
Subadvisory fees	1,877	4,484	-58%
Depreciation	3,249	3,227	1%
Total operating expenses	\$ 273,842	233,645	17%

Compensation and Related Costs

Compensation and related costs increased \$1.9 million, or 4%, compared to the first quarter of 2013. Share-based compensation increased \$1.4 million due to higher amortization expense associated with our April 2013 and December 2013 grants of nonvested stock compared to grants that became fully vested in 2013, an increase in non-employee advisor (independent contractor) stock award amortization expense and a credit taken in the first quarter of 2013 related to the cancellation of unvested shares granted to a subsidiary sold in 2013. Adjustments to the forfeiture rate during the first quarter of 2014 partially offset the share-based compensation increase. Base salaries increased \$0.9 million due to increased headcount and annual salary increases, while pension expense decreased \$0.9 million.

General and Administrative Costs

General and administrative expenses increased \$7.5 million to \$23.8 million for the first quarter of 2014 compared to the first quarter of 2013, primarily due to increased legal, consulting and audit costs, increased dealer services costs based on higher asset levels in certain share classes, increased costs for temporary office staff and increased computer services and software costs.

Subadvisory Fees

Subadvisory fees represent fees paid to other asset managers for providing advisory services for certain mutual fund portfolios. These expenses reduce our operating margin since we pay out a portion of our management fee revenue received from subadvised products. Gross management fee revenues for products subadvised by others were \$3.6 million for the three months ended March 31, 2014 compared to \$8.9 million for the first quarter of 2013 due to a 55% decrease in subadvised average net assets. The decrease in subadvised average net assets is a result of internalizing the management of the Global Natural Resources funds after the portfolio manager's retirement from Mackenzie Financial Corporation, the subadvisor, during the third quarter of 2013. Subadvisory expenses followed the same pattern of decrease compared to 2013.

Subadvised average assets under management at March 31, 2014 were \$2.0 billion compared to \$4.4 billion at March 31, 2013.

Other Income and Expenses

Investment and Other Income, Interest Expense and Taxes

Investment and other income was \$3.9 million for the quarter ended March 31, 2014, compared to \$4.4 million in the same period a year ago. We recorded realized gains of \$1.2 million on the sale of available for sale mutual fund holdings during the current quarter compared to \$2.4 million in the first quarter of 2013. In our mutual fund trading portfolio, we recorded mark-to-market gains of \$2.0 million during the quarter compared to gains of \$2.2 million for the three months ended March 31, 2013. We recorded losses related to our investment in a limited partnership of \$0.8 million in the first quarter of 2013.

Interest expense was \$2.8 million and \$2.9 million for the three month periods ended March 31, 2014 and 2013, respectively.

Table of Contents

Our effective income tax rate was 36.4% for the first quarter of 2014, as compared to 36.2% for the first quarter of 2013. Due to the sale of a subsidiary in 2013, the Company has deferred tax assets related to capital loss carryforwards, which are available to offset current and future capital gains. A valuation allowance was recorded on this capital loss when realized due to the extent that this loss exceeded available capital gains. The valuation allowance was necessary due to the limited carryforward period permitted by law on losses of this character. An increase in the fair value of the Company's trading securities portfolio and realized capital gains on securities classified as available for sale in the first quarters of 2014 and 2013 allowed for a release of the valuation allowance, thereby reducing income tax expense by \$1.2 million and \$1.4 million, respectively.

The first quarter 2014 and 2013 effective income tax rates, removing the effects of the valuation allowance, would have been 37.4% and 37.9%, respectively. The adjusted effective tax rate in the first quarter of 2014 was lower primarily due to a reduction in unrecognized state tax benefits for which the outcome is uncertain. Additionally, higher income before taxes in the first quarter of 2014 decreased the impact of non-deductible expenses on the effective income tax rate.

The Company expects its future effective tax rate, exclusive of any increases or reductions to the valuation allowance, state tax incentives, unanticipated state tax legislative changes, and unanticipated fluctuations in earnings to range from 37% to 39%.

Liquidity and Capital Resources

Our operations provide much of the cash necessary to fund our priorities, as follows:

- Finance internal growth

- Pay dividends

- Repurchase our stock

Finance Internal Growth

We use cash to fund growth in our distribution channels. Our Wholesale channel, which has a higher cost to gather assets, requires cash outlays for wholesaler commissions and commissions to third parties on deferred load product sales. We continue to invest in our Advisors channel by providing additional support to our advisors through home office resources, wholesaling efforts and enhanced technology tools.

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We are currently investing in technology initiatives to modernize and optimize our technology environment. Initiatives underway include upgrading our infrastructure, network and security, moving to distributed applications and building system architecture.

Pay Dividends

We paid quarterly dividends on our common stock that resulted in financing cash outflows of \$29.0 million and \$24.0 million for the first quarter of 2014 and 2013 respectively. The Board of Directors approved an increase in the quarterly dividend on our common stock from \$0.28 per share to \$0.34 per share beginning with our fourth quarter 2013 dividend, paid on February 3, 2014.

Repurchase Our Stock

We repurchased 280,186 shares and 81,701 shares of our common stock in the open market or privately during the three months ended March 31, 2014 and 2013, respectively, resulting in cash outflows of \$17.7 million and \$3.4 million, respectively.

Operating Cash Flows

Cash from operations, our primary source of funds, increased \$27.8 million for the three months ended March 31, 2014 compared to the previous year. The increase is primarily due to increased net income compared to the prior quarter.

During the first quarter of 2014, we contributed \$10.0 million to the Pension Plan and contributed an additional \$10.0 million to the Pension Plan in April 2014. We do not expect to make additional contributions for the remainder of the year.

Table of Contents

Investing Cash Flows

Investing activities consist primarily of the purchase, sale and maturities of available for sale investment securities, as well as capital expenditures. During the first quarter of 2014, we purchased two buildings adjacent to our home campus that we previously leased. We expect our 2014 capital expenditures to be in the range of \$25.0 to \$35.0 million. Related to the sale of a subsidiary, we received cash proceeds of \$22.0 million during the first quarter of 2013.

Financing Cash Flows

As noted previously, dividends and stock repurchases accounted for a majority of our financing cash outflows in the first three months of 2014 and 2013.

Future Capital Requirements

Management believes its available cash, marketable securities and expected cash flow from operations will be sufficient to fund its short-term operating and capital requirements. Expected short-term uses of cash include dividend payments, interest payments on outstanding debt, income tax payments, seed money for new products, share repurchases, payment of deferred commissions to our financial advisors and third-parties, capital expenditures and home office leasehold improvements, and could include strategic acquisitions.

Expected long-term capital requirements include indebtedness, operating leases and purchase obligations, and potential recognition of tax liabilities. Other possible long-term discretionary uses of cash could include capital expenditures for enhancement of technology infrastructure and home office expansion, strategic acquisitions, payment of dividends, income tax payments, seed money for new products, payment of upfront fund commissions for Class C shares and certain fee-based asset allocation products, pension funding and repurchases of our common stock.

Critical Accounting Policies and Estimates

Management believes certain critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements. The Company's critical accounting policies and estimates are disclosed in the Critical Accounting Policies and Estimates section of our 2013 Form 10-K.

Our indefinite life intangible asset balance includes \$16.3 million related to our subadvisory agreement to manage certain mutual fund products for Mackenzie Financial Corporation (MFC) recorded in connection with our purchase of Mackenzie Investment Management, Inc. in 2002. As part of purchase accounting, a deferred tax liability was established related to this identifiable intangible asset. As of March 31, 2014, the

associated deferred tax liability is \$6.0 million.

The fair value of this intangible asset exceeded its carrying amount by 20% when performing our annual testing for impairment during the second quarter of 2013. Based on the result of our annual test, we increased the frequency of our impairment analysis for this asset, and there are no indicators of impairment as of March 31, 2014.

Table of Contents

Supplemental Information

Channel highlights			
Number of advisors	1,737	1,717	1.2%
Wholesale			
	21.1%	24.6%	
Institutional			
	17.0%	15.5%	
Organic growth annualized			
	14.7%	8.7%	
As % of Sales			
Fixed Income	23.3%	30.7%	
As % of Assets Under Management			
Fixed Income	18.6%	20.7%	
Average assets for I, Y, and R share classes (in millions)	\$ 30,038	21,221	41.5%

(1) Advisors productivity is calculated by dividing underwriting and distribution revenues for the Advisors channel by the average number of advisors during the year.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company has had no significant changes in its Quantitative and Qualitative Disclosures About Market Risk from that previously reported in the Company's 2013 Form 10-K.

Item 4. Controls and Procedures

The Company maintains a system of disclosure controls and procedures that is designed to provide reasonable assurance that information, which is required to be timely disclosed, is accumulated and communicated to management in a timely fashion. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The Company's Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this quarterly report, have concluded that the Company's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

The Company's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. There were no changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. However, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

Table of Contents**Part II. Other Information****Item 1. Legal Proceedings**

The Company is involved from time to time in various legal proceedings, regulatory investigations and claims incident to the normal conduct of business, which may include proceedings that are specific to us and others generally applicable to the business practices within the industries in which we operate. A substantial legal liability or a significant regulatory action against us could have an adverse effect on our business, financial condition and on the results of operations in a particular quarter or year.

Item 1A. Risk Factors

The Company has had no material changes to its Risk Factors from those previously reported in the Company's 2013 Form 10-K.

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

The following table sets forth certain information about the shares of common stock we repurchased during the first quarter of 2014.

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Program
January 1 - January 31	77,519	\$ 64.04	77,519	n/a(1)
February 1 - February 28	202,667	62.72	202,667	n/a(1)
March 1 - March 31				n/a(1)
Total	280,186	\$ 63.08	280,186	

(1) On August 31, 1998, we announced that our Board of Directors approved a program to repurchase shares of our common stock on the open market. Under the repurchase program, we are authorized to repurchase, in any seven-day period, the greater of (i) 3% of our outstanding common stock or (ii) \$50 million of our common stock. We may repurchase our common stock through the New York Stock Exchange, other national or regional market systems, electronic communication networks or alternative trading systems. Our stock repurchase program does not have an expiration date or an aggregate maximum number or dollar value of shares that may be repurchased. Our Board of Directors reviewed and ratified the stock repurchase program in October 2012. During the first quarter of 2014, all stock repurchases were made pursuant to the repurchase program and 2,667 shares, reflected in the table above, were purchased in connection with funding employee income tax withholding obligations arising from the vesting of nonvested shares.

Table of Contents

Item 6. Exhibits

10.1 2014 Performance Goals established pursuant to the Waddell & Reed Financial, Inc. 2003 Executive Incentive Plan, as amended and restated. Filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, File No. 001-13913, filed February 19, 2014 and incorporated herein by reference.*

10.2 Waddell & Reed Financial, Inc. 2003 Executive Incentive Plan, as amended and restated. Filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, File No. 001-13913, filed April 17, 2014 and incorporated herein by reference.*

31.1 Section 302 Certification of Chief Executive Officer

31.2 Section 302 Certification of Chief Financial Officer

32.1 Section 906 Certification of Chief Executive Officer

32.2 Section 906 Certification of Chief Financial Officer

101 Materials from the Waddell & Reed Financial, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2014, formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statement of Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) related Notes to the Unaudited Consolidated Financial Statements, tagged in detail.

*Indicates management contract or compensatory plan, contract or arrangement.

Table of Contents

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, this 2nd day of May 2014.

WADDELL & REED FINANCIAL, INC.

By: /s/ Henry J. Herrmann
Chief Executive Officer, Chairman of the Board and
Director
(Principal Executive Officer)

By: /s/ Brent K. Bloss
Senior Vice President, Chief Financial Officer
and Treasurer
(Principal Financial Officer)

By: /s/ Melissa A. Clouse
Vice President and Controller and Treasurer
(Principal Accounting Officer)