

WADDELL & REED FINANCIAL INC
Form 10-Q
July 31, 2015

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 June 30, 2015

OR

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

For the transition period from _____ to _____

Commission file number 001-13913

WADDELL & REED FINANCIAL, INC.

Edgar Filing: WADDELL & REED FINANCIAL INC - Form 10-Q

(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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(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 July 23, 2015
Class A common stock, \$.01 par value	83,739,728

Table of Contents

WADDELL & REED FINANCIAL, INC.

INDEX TO QUARTERLY REPORT ON FORM 10-Q

Quarter Ended June 30, 2015

	Page No.
<u>Part I.</u> <u>Financial Information</u>	
<u>Item 1.</u>	
<u>Financial Statements (unaudited)</u>	
<u>Consolidated Balance Sheets at June 30, 2015 and December 31, 2014</u>	3
<u>Consolidated Statements of Income for the three and six months ended June 30, 2015 and June 30, 2014</u>	4
<u>Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2015 and June 30, 2014</u>	5
<u>Consolidated Statement of Stockholders' Equity for the six months ended June 30, 2015</u>	6
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and June 30, 2014</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>	34
<u>Item 4.</u>	
<u>Controls and Procedures</u>	34
<u>Part II.</u> <u>Other Information</u>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	35
<u>Item 1A.</u>	
<u>Risk Factors</u>	35
<u>Item 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	35
<u>Item 6.</u>	
<u>Exhibits</u>	36
<u>Signatures</u>	37

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

Consolidated Balance Sheets

(in thousands)

	June 30, 2015 (unaudited)	December 31, 2014
Assets:		
Cash and cash equivalents	\$ 614,865	566,621
Cash and cash equivalents - restricted	59,935	76,595
Investment securities	238,985	243,283
Receivables:		
Funds and separate accounts	33,822	39,110
Customers and other	151,550	216,843
Deferred income taxes	6,941	7,454
Income taxes receivable	3,712	7,747
Prepaid expenses and other current assets	20,750	14,980
Total current assets	1,130,560	1,172,633
Property and equipment, net	98,200	92,304
Deferred sales commissions, net	38,954	56,472
Goodwill and identifiable intangible assets	158,118	158,123
Deferred income taxes	21,723	20,036
Other non-current assets	14,415	12,298
Total assets	\$ 1,461,970	1,511,866
Liabilities:		
Accounts payable	\$ 24,893	32,263
Payable to investment companies for securities	88,664	129,633
Payable to third party brokers	59,510	67,954
Payable to customers	67,533	110,399
Accrued compensation	75,213	67,574
Other current liabilities	55,176	55,143
Total current liabilities	370,989	462,966
Long-term debt	190,000	190,000
Accrued pension and postretirement costs	29,595	45,936
Other non-current liabilities	25,747	26,880
Total liabilities	616,331	725,782
Commitments and contingencies		

Edgar Filing: WADDELL & REED FINANCIAL INC - Form 10-Q

Stockholders' equity:		
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; 83,916 shares outstanding (83,654 at December 31, 2014)		
	997	997
Additional paid-in capital	317,513	318,636
Retained earnings	1,104,136	1,041,909
Cost of 15,785 common shares in treasury (16,047 at December 31, 2014)	(525,276)	(525,015)
Accumulated other comprehensive loss	(51,731)	(50,443)
Total stockholders' equity	845,639	786,084
Total liabilities and stockholders' equity	\$ 1,461,970	1,511,866

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 June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Revenues:				
Investment management fees	\$ 185,914	193,624	368,019	381,661
Underwriting and distribution fees	171,508	169,001	338,486	334,268
Shareholder service fees	36,568	38,009	72,943	75,121
Total	393,990	400,634	779,448	791,050
Operating expenses:				
Underwriting and distribution	195,762	195,608	391,182	390,559
Compensation and related costs (including share-based compensation of \$11,333, \$14,593, \$23,806 and \$27,679, respectively)	52,829	48,589	106,324	98,598
General and administrative	27,897	27,183	53,575	50,939
Subadvisory fees	2,394	2,069	4,781	3,946
Depreciation	4,064	3,541	8,098	6,790
Total	282,946	276,990	563,960	550,832
Operating income	111,044	123,644	215,488	240,218
Investment and other income	9	6,100	3,981	10,000
Interest expense	(2,765)	(2,755)	(5,531)	(5,510)
Income before provision for income taxes	108,288	126,989	213,938	244,708
Provision for income taxes	40,843	44,001	79,380	86,856
Net income	\$ 67,445	82,988	134,558	157,852
Net income per share, basic and diluted:	\$ 0.80	0.98	1.61	1.86
Weighted average shares outstanding, basic and diluted:	84,079	85,073	83,831	85,046

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 June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Net income	\$ 67,445	82,988	134,558	157,852
Other comprehensive income:				
Unrealized appreciation (depreciation) of available for sale investment securities during the period, net of income tax expense (benefit) of \$(8), \$4, \$5 and \$2, respectively	(4,974)	2,170	(3,164)	1,471
Pension and postretirement benefits, net of income tax expense of \$397, \$167, \$951 and \$372, respectively	933	285	1,876	632
Comprehensive income	\$ 63,404	85,443	133,270	159,955

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 Six Months Ended June 30, 2015

(Unaudited, in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Stockholders Equity
Balance at December 31, 2014	99,701	\$ 997	318,636	1,041,909	(525,015)	(50,443)	786,084
Net income				134,558			134,558
Recognition of equity compensation			23,806				23,806
Net issuance/forfeiture of nonvested shares			(29,743)		29,743		
Dividends accrued, \$0.86 per share				(72,331)			(72,331)
Excess tax benefits from share-based payment arrangements			4,814				4,814
Repurchase of common stock					(30,004)		(30,004)
Other comprehensive income						(1,288)	(1,288)
Balance at June 30, 2015	99,701	\$ 997	317,513	1,104,136	(525,276)	(51,731)	845,639

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 six months ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$ 134,558	157,852
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,100	6,906
Amortization of deferred sales commissions	24,270	32,967
Share-based compensation	23,806	27,679
Excess tax benefits from share-based payment arrangements	(4,814)	(16,861)
Gain on sale of available for sale investment securities	(2,804)	(2,586)
Net purchases and sales or maturities of trading securities	56	(18,269)
Gain on trading securities	(3)	(5,508)
Loss on sale and retirement of property and equipment	84	1,058
Capital gains and dividends reinvested		(9)
Deferred income taxes	(2,130)	1,357
Changes in assets and liabilities:		
Cash and cash equivalents - restricted	16,660	32,457
Other receivables	65,293	(63,441)
Payable to investment companies for securities and payable to customers	(83,835)	18,048
Receivables from funds and separate accounts	5,288	(2,215)
Other assets	(7,887)	(9,743)
Deferred sales commissions	(6,752)	(33,322)
Accounts payable and payable to third party brokers	(15,814)	3,637
Other liabilities	1,768	(899)
Net cash provided by operating activities	\$ 155,844	129,108
Cash flows from investing activities:		
Purchases of available for sale investment securities	(25,891)	(52,941)
Proceeds from sales and maturities of available for sale investment securities	29,778	64,666
Additions to property and equipment	(14,078)	(18,161)
Net cash used in investing activities	\$ (10,191)	(6,436)
Cash flows from financing activities:		
Dividends paid	(72,219)	(57,963)
Repurchase of common stock	(30,004)	(61,722)
Excess tax benefits from share-based payment arrangements	4,814	16,861
Net cash used in financing activities	\$ (97,409)	(102,824)
Net increase in cash and cash equivalents	48,244	19,848
Cash and cash equivalents at beginning of period	566,621	487,845
Cash and cash equivalents at end of period	\$ 614,865	507,693

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 and advisory services, investment product underwriting and distribution, and/or 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), the Selector Management Fund SICAV, renamed Ivy Global Investors SICAV effective July 1, 2015, and its Ivy Global Investors sub-funds (the IGI 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). The IGI Funds are regulated by Luxembourg's Commission de Surveillance du Secteur Financier as an undertaking for collective investment in transferable securities (UCITS). 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. Services to the IGI Funds are provided under investment management and underwriting agreements. 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 our revenues and results of operations.

Basis of Presentation

We have prepared the accompanying unaudited consolidated financial statements 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, 2014 (the 2014 Form 10-K).

The accompanying unaudited consolidated financial statements are prepared consistent with the accounting policies described in Note 2 to the consolidated financial statements included in our 2014 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 funds (mutual funds and UCITS sub-funds), property and equipment, software developed for internal use, goodwill and identifiable intangible assets, deferred sales commissions, revenue recognition, advertising and promotion, leases, 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 June 30, 2015, the results of operations for the three and six months ended June 30, 2015 and 2014, and cash flows for the six months ended June 30, 2015 and 2014 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. Accounting Pronouncements Not Yet Adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This standard also specifies the accounting for certain costs to obtain or fulfill a contract with a customer. This ASU will supersede much of the existing revenue recognition guidance in accounting principles generally accepted in the United States and is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period; early application is permitted for the first interim period within annual reporting periods beginning after December 15, 2016. ASU 2014-09 permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating which transition method to apply and the estimated impact the adoption of this ASU will have on our consolidated financial statements and related disclosures.

In February 2015, the FASB issued ASU 2015-02, *Amendments to the Consolidation Analysis*. The amendments in this ASU will affect all companies that are required to evaluate whether they should consolidate another entity. Additionally, the amendments in this ASU rescind the indefinite deferral of FASB Statement 167, *Amendments to FASB Interpretation No. 46(r)* included in FASB ASU 2010-10, *Consolidation Amendments for Certain Investment Funds*. ASU 2015-02 will be effective for annual reporting periods after December 15, 2015, including interim periods within that reporting period; early adoption is permitted. This standard permits the use of either a full retrospective or a modified retrospective approach. The Company is evaluating which approach to apply and the estimated impact the adoption of this ASU will have on our consolidated financial statements and related disclosures.

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. ASU 2015-03 is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period; early adoption is permitted. The Company believes that the adoption of this ASU in 2016 will result in an immaterial impact to our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. ASU 2015-05 provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer would account for the software license element of the arrangement consistent with its accounting for the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer would account for the arrangement as a service contract. The proposed guidance would not change GAAP for a customer's accounting of software license or service contracts. This standard will be effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015; early adoption is permitted. The Company believes that the adoption of this ASU in 2016 will result in an immaterial impact to our consolidated financial statements.

Table of Contents**4. Investment Securities**

Investment securities at June 30, 2015 and December 31, 2014 are as follows:

June 30, 2015	Amortized cost	Unrealized gains (in thousands)	Unrealized losses	Fair value
Available for sale securities:				
Affiliated funds	\$ 210,839	4,925	(9,239)	206,525
	\$ 210,839	4,925	(9,239)	206,525
Trading securities:				
Mortgage-backed securities				24
Common stock				73
Affiliated funds				32,363
				32,460
Total investment securities				\$ 238,985

December 31, 2014	Amortized cost	Unrealized gains (in thousands)	Unrealized losses	Fair value
Available for sale securities:				
Affiliated funds	\$ 162,425	4,237	(5,392)	161,270
	\$ 162,425	4,237	(5,392)	161,270
Trading securities:				
Mortgage-backed securities				28
Common stock				72
Affiliated funds				81,913
				82,013
Total investment securities				\$ 243,283

Purchases of trading securities during the six months ended June 30, 2015 were \$0.3 million. Sales of trading securities were \$0.3 million for the same period.

A summary of available for sale affiliated funds with fair values below carrying values at June 30, 2015 and December 31, 2014 is as follows:

June 30, 2015	Less than 12 months Fair value	Unrealized losses	12 months or longer Fair value (in thousands)	Unrealized losses	Fair value	Total Unrealized losses
Affiliated funds	\$ 147,131	(9,204)	305	(35)	147,436	(9,239)

Edgar Filing: WADDELL & REED FINANCIAL INC - Form 10-Q

December 31, 2014	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Affiliated funds	\$ 66,858	(5,362)	1,187	(30)	68,045	(5,392)

Based upon our assessment of these affiliated funds, the time frame the investments have been in a loss

Table of Contents

position and our intent to hold affiliated funds until they have recovered, we determined that a write-down was not necessary at June 30, 2015.

Mortgage-backed securities accounted for as trading and held as of June 30, 2015 mature in 2022.

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-level 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 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 June 30, 2015 and December 31, 2014 that are recognized in our consolidated balance sheets using fair value measurements based on the differing levels of inputs.

June 30, 2015	Level 1	Level 2 (in thousands)	Level 3	Total
---------------	---------	---------------------------	---------	-------

Edgar Filing: WADDELL & REED FINANCIAL INC - Form 10-Q

Mortgage-backed securities	\$		24	24
Common stock		73		73
Affiliated funds		238,888		238,888
Total	\$	238,961	24	238,985

December 31, 2014		Level 1	Level 2 (in thousands)	Level 3	Total
Mortgage-backed securities	\$		28		28
Common stock		72			72
Affiliated funds		243,183			243,183
Total	\$	243,255	28		243,283

Table of Contents**5. 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. As of June 30, 2015, the Company's annual impairment test indicated that goodwill and identifiable intangible assets were not impaired. Goodwill and identifiable intangible assets (all considered indefinite lived) at June 30, 2015 and December 31, 2014 are as follows:

	June 30, 2015	December 31, 2014
	(in thousands)	
Goodwill	\$ 106,970	106,970
Mutual fund management advisory contracts	42,748	42,753
Mutual fund management subadvisory contracts	8,400	8,400
Total identifiable intangible assets	51,148	51,153
Total	\$ 158,118	158,123

6. Indebtedness

Debt is reported at its carrying amount in the consolidated balance sheet. The fair value of the Company's outstanding indebtedness is approximately \$205.0 million at June 30, 2015 compared to the carrying value of \$190.0 million. Fair value is calculated based on Level 2 inputs.

7. Income Tax Uncertainties

As of January 1, 2015 and June 30, 2015, the Company had unrecognized tax benefits, including penalties and interest, of \$11.6 million (\$8.3 million net of federal benefit) and \$12.4 million (\$8.9 million net of federal benefit), respectively, that if recognized, would impact the Company's effective tax rate. In the accompanying consolidated balance sheet, unrecognized tax benefits that are not expected to be settled within the next 12 months are included in other liabilities; unrecognized tax benefits that are expected to be settled within the next 12 months are included in income taxes payable; unrecognized tax benefits that reduce a net operating loss, similar tax loss, or tax credit carryforward are presented as a reduction to either current or noncurrent deferred income taxes, as applicable.

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, 2015, the total amount of accrued interest and penalties related to uncertain tax positions recognized in the consolidated balance sheet was \$3.5 million (\$2.9 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 six month period ended June 30, 2015 was \$0.5 million. The total amount of accrued penalties and interest related to uncertain tax positions at June 30, 2015 of \$4.1 million (\$3.4 million net of federal benefit) is included in the total unrecognized tax benefits described above.

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 2011, 2012, 2013 and 2014 federal income tax returns are open tax years that remain subject to potential future audit. State income tax returns for all years after 2010 and, in certain states, income tax returns for 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. The Company's liability for unrecognized tax benefits, including penalties and interest, is not expected to decrease significantly upon settlement of these audits. Additionally, such settlements are not anticipated to have a significant impact on the results of operations.

Table of Contents8. **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 our 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 were as follows:

	Pension Benefits		Other Postretirement Benefits Three months		Pension Benefits		Other Postretirement Benefits	
	Three months ended June 30,		ended June 30,		Six months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014	2015	2014	2015	2014
	(in thousands)				(in thousands)			
Components of net periodic benefit cost:								
Service cost	\$ 2,994	2,317	228	180	6,041	5,042	456	360
Interest cost	2,056	2,045	99	99	4,210	4,198	198	198
Expected return on plan assets	(3,565)	(3,595)			(7,256)	(7,008)		
Actuarial (gain) loss amortization	1,209	337		(4)	2,585	748		(8)
Prior service cost amortization	115	104	5	14	230	234	10	28
Transition obligation amortization	1	1			2	2		
Total(1)	\$ 2,810	1,209	332	289	5,812	3,216	664	578

(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 is included in underwriting and distribution expense.

During the first quarter of 2015, we contributed \$20.0 million to the Pension Plan.

9. **Stockholders Equity**

Earnings per Share

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	(in thousands, except per share amounts)			
Net income	\$ 67,445	82,988	134,558	157,852
Weighted average shares outstanding, basic and diluted	84,079	85,073	83,831	85,046
Earnings per share, basic and diluted	0.80	0.98	1.61	1.86

Table of Contents*Dividends*

On April 15, 2015, the Board of Directors approved a dividend on our common stock in the amount of \$0.43 per share to stockholders of record on July 13, 2015 to be paid on August 3, 2015. The total dividend to be paid is approximately \$36.1 million and is included in other current liabilities as of June 30, 2015.

Common Stock Repurchases

The Board of Directors 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 516,533 shares and 628,022 shares repurchased in the open market or privately during the three months ended June 30, 2015 and 2014, respectively, which includes 306,533 shares and 423,452 shares, respectively, repurchased from employees who tendered shares to cover their minimum income tax withholdings with respect to vesting of stock awards during these same reporting periods. There were 622,591 shares and 908,208 shares repurchased in the open market or privately during the six months ended June 30, 2015 and 2014, respectively, which includes 312,091 shares and 426,119 shares, respectively, repurchased from employees who tendered shares to cover their minimum income tax withholdings with respect to vesting of stock awards during each of these two periods.

Accumulated Other Comprehensive Income (Loss)

The following tables summarize other comprehensive income (loss) activity for the three and six months ended June 30, 2015 and June 30, 2014.

	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)
Three months ended June 30, 2015				
Balance at March 31, 2015	\$ 421	(809)	(47,302)	(47,690)
Other comprehensive income before reclassification	(2,845)	(1,671)		(4,516)
Amount reclassified from accumulated other comprehensive income	(289)	(169)	933	475
Net current period other comprehensive income (loss)	(3,134)	(1,840)	933	(4,041)

Table of Contents

	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)
Six months ended June 30, 2015				
Balance at December 31, 2014	\$ (727)	(1,471)	(48,245)	(50,443)
Other comprehensive income before reclassification	(222)	(158)		(380)
Amount reclassified from accumulated other comprehensive income	(1,764)	(1,020)	1,876	(908)
Net current period other comprehensive income (loss)	(1,986)	(1,178)	1,876	(1,288)
Balance at June 30, 2015	\$ (2,713)	(2,649)	(46,369)	(51,731)

	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)
Six months ended June 30, 2014				
Balance at December 31, 2013	\$ 3,150	810	(19,819)	(15,859)
Other comprehensive income before reclassification	2,557	1,494		4,051
Amount reclassified from accumulated other comprehensive income	(1,629)	(951)	632	(1,948)
Net current period other comprehensive income	928	543	632	2,103
Balance at June, 2014	\$ 4,078	1,353	(19,187)	(13,756)

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

For the three months ended June 30, 2015				
	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	\$ 459	(170)	289	Investment and other income
Valuation allowance		169	169	Provision for income taxes
Amortization of pension and postretirement benefits	(1,330)	397	(933)	Underwriting and distribution expense and Compensation and related costs
Total	\$ (871)	396	(475)	

Table of Contents

For the three months ended June 30, 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	\$ 1,404	(520)	884	Investment and other income
Valuation allowance		516	516	Provision for income taxes
Amortization of pension and postretirement benefits	(452)	167	(285)	Underwriting and distribution expense and Compensation and related costs
Total	\$ 952	163	1,115	

For the six months ended June 30, 2015				
	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	\$ 2,804	(1,040)	1,764	Investment and other income
Valuation allowance		1,020	1,020	Provision for income taxes
Amortization of pension and postretirement benefits	(2,827)	951	(1,876)	Underwriting and distribution expense and Compensation and related costs
Total	\$ (23)	931	908	

For the six months ended June 30, 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	\$ 2,586	(957)	1,629	Investment and other income
Valuation allowance		951	951	Provision for income taxes
Amortization of pension and postretirement benefits	(1,004)	372	(632)	Underwriting and distribution expense and Compensation and related costs
Total	\$ 1,582	366	1,948	

10. Share-Based Compensation

On April 2, 2015, we granted 1,028,523 shares of restricted stock with a fair value of \$50.18 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 \$51.6 million, will generally be amortized to expense over a four-year vesting period.

11. **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 results of operations in a particular quarter or year.

Table of Contents

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 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's judgment is required related to contingent liabilities because the outcomes are difficult to predict. In our opinion, the likelihood that any pending legal proceeding, regulatory investigation, claim, or other contingency will have a material adverse effect on our business, financial condition or results of operations is remote.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the unaudited consolidated financial statements and notes to the unaudited consolidated financial statements included elsewhere in this report. Unless otherwise indicated or the context otherwise requires all references to the Company, we, our or is refer to Waddell & Reed Financial, Inc. and its consolidated subsidiaries.

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, potential and similar statements of a future or forward-looking nature. Readers are cautioned that any forward-looking information provided by us or on our behalf 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, 2014, 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;*
- *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;*
- *The ability of mutual fund and other investors to redeem their investments without prior notice or on short notice;*

Table of Contents

- *Non-compliance with applicable laws or regulations and changes in current legal, regulatory, accounting, tax or compliance requirements or governmental policies;*
- *Our inability to attract and retain senior executive management and other key personnel to conduct our broker/dealer, fund management and investment management advisory business;*
- *A failure in, or breach of, our operational or security systems or our technology infrastructure, or those of third parties on which we rely; and*
- *Our inability to implement new information technology and systems, or our inability to complete such implementation in a timely or cost effective manner.*

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 (the SEC), 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, 2014 and as updated in our quarterly reports on Form 10-Q for the year ending December 31, 2015. All forward-looking statements speak 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, except to the extent required by law.

Overview

Founded in 1937, we are one of the oldest mutual fund and asset management firms in the country, 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 and advisory services, investment product underwriting and distribution, and shareholder services administration 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), the Selector Management Fund SICAV, renamed Ivy Global Investors SICAV effective July 1, 2015, and its Ivy Global Investors sub-funds (the IGI Funds) and institutional and separately managed accounts. Investment management and/or advisory 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 dollar 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 for commissions, employee compensation, field support, dealer services and information technology.

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, or through our Advisors channel sales force of independent financial advisors. Through our Institutional channel, we distribute a variety of investment styles for a variety of types of institutions.

Table of Contents

Company Developments

- Ivy Investment Management Company entered into a preliminary agreement with Navigate Fund Solutions, a subsidiary of Eaton Vance Corporation, to support the launch by Ivy Funds of a family of NextShares exchange-traded managed funds. The Ivy Funds launch of NextShares is subject to securing exemptive order relief from the SEC to allow it to manage exchange-traded managed funds, as well as the development of implementation technology by broker/dealers and other market participants.
- In October 2015, Ivy Funds will launch two new Apollo Funds offering income solutions for investors. The Ivy Apollo Strategic Income Fund will invest among three investment strategies: Apollo's total return and Ivy's global bond and high income. The Ivy Apollo Multi-Asset Income Fund will invest among four investment strategies: Apollo's total return and Ivy's global high income, equity income and real estate.
- Operating revenues of \$394.0 million in the second quarter of 2015 decreased \$6.6 million, or 2%, compared to the second quarter of 2014.
- Operating income of \$111.0 million in the second quarter of 2015 decreased \$12.6 million, or 10%, compared to the second quarter of 2014. Our operating margin of 28.2% for the quarter ended June 30, 2015 declined from 30.9% for the quarter ended June 30, 2014. Net income of \$67.4 million for the second quarter of 2015 decreased \$15.5 million, or 19%, compared to this same period a year ago.
- Our assets under management decreased 11% from \$135.6 billion at June 30, 2014 to \$120.7 billion at June 30, 2015 and our average assets under management decreased 6% from \$131.8 billion for the quarter ended June 30, 2014 to \$123.5 billion for the quarter ended June 30, 2015.
- Company-wide sales in the second quarter of 2015 decreased 23% compared to sales in the second quarter of 2014. Diversification remains our focus as sales exceeded \$100.0 million for 10 investment strategies during the second quarter of 2015; of these investment strategies, sales for four strategies exceeded \$500.0 million.
- The long-term redemption rate in the Wholesale channel decreased to 31.0% during the second quarter of 2015, compared to 42.9% during the first quarter of 2015, primarily driven by a moderation of outflows in the Ivy Asset Strategy Fund.

- Our balance sheet remains solid, and we ended the second quarter of 2015 with cash and investments of \$853.9 million.

Table of Contents**Assets Under Management**

Assets under management at June 30, 2015 decreased 2% to \$120.7 billion from \$122.9 billion at March 31, 2015, and decreased 11% compared to \$135.6 billion at June 30, 2014.

Change in Assets Under Management(1)

	Wholesale	Second Quarter 2015		Total
		Advisors	Institutional	
		(in millions)		
Beginning Assets	\$ 59,412	46,385	17,097	122,894
Sales(2)	3,239	1,347	1,203	5,789
Redemptions	(4,558)	(1,279)	(1,003)	(6,840)
Net Exchanges	144	(144)		
Net Flows	(1,175)	(76)	200	(1,051)
Market Depreciation/Other	(692)	(362)	(83)	(1,137)
Ending Assets	\$ 57,545	45,947	17,214	120,706

	Wholesale	Second Quarter 2014		Total
		Advisors	Institutional	
		(in millions)		
Beginning Assets	\$ 70,467	44,224	16,692	131,383
Sales(2)	4,864	1,457	1,193	7,514
Redemptions	(4,363)	(1,098)	(851)	(6,312)
Net Exchanges	(397)	(88)	485	
Net Flows	104	271	827	1,202
Market Appreciation/Other	1,100	1,302	646	3,048
Ending Assets	\$ 71,671	45,797	18,165	135,633

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

(2) Primarily gross sales (net of sales commission), but also includes net reinvested dividends and capital gains and investment income.

Table of Contents

Assets under management decreased to \$120.7 billion at June 30, 2015 compared to \$123.7 billion at December 31, 2014 due to outflows of \$4.6 billion offset by market appreciation of \$1.7 billion.

	Wholesale	Year to Date 2015		Total
		Advisors (in millions)	Institutional	
Beginning Assets	\$ 60,335	45,517	17,798	123,650
Sales(2)	7,110	2,616	1,504	11,230
Redemptions	(10,816)	(2,558)	(2,464)	(15,838)
Net Exchanges	367	(367)		
Net Flows	(3,339)	(309)	(960)	(4,608)
Market Appreciation/Other	549	739	376	1,664
Ending Assets	\$ 57,545	45,947	17,214	120,706

	Wholesale	Year to Date 2014		Total
		Advisors (in millions)	Institutional	
Beginning Assets	\$ 67,055	43,667	15,821	126,543
Sales(2)	11,881	2,892	2,747	17,520
Redemptions	(7,925)	(2,204)	(1,530)	(11,659)
Net Exchanges	(285)	(200)	485	
Net Flows	3,671	488	1,702	5,861
Market Appreciation/Other	945	1,642	642	3,229
Ending Assets	\$ 71,671	45,797	18,165	135,633

(2) Primarily gross sales (net of sales commission), but 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

	Wholesale	Second Quarter 2015		Total
		Advisors	Institutional	
	(in millions)			
Asset Class:				
Equity	\$ 48,580	35,106	16,216	\$ 99,902
Fixed Income	10,448	10,093	1,110	21,651
Money Market	137	1,822		1,959
Total	\$ 59,165	47,021	17,326	\$ 123,512

	Wholesale	Second Quarter 2014		Total
		Advisors	Institutional	
	(in millions)			
Asset Class:				
Equity	\$ 55,679	32,547	16,410	\$ 104,636
Fixed Income	14,254	9,903	785	24,942
Money Market	167	2,066		2,233
Total	\$ 70,100	44,516	17,195	\$ 131,811

	Wholesale	Year to Date 2015		Total
		Advisors	Institutional	
	(in millions)			
Asset Class:				
Equity	\$ 48,605	34,649	16,382	\$ 99,636
Fixed Income	10,604	10,101	1,080	21,785
Money Market	146	1,825		1,971
Total	\$ 59,355	46,575	17,462	\$ 123,392

	Wholesale	Year to Date 2014		Total
		Advisors	Institutional	
	(in millions)			
Asset Class:				
Equity	\$ 55,367	32,498	15,975	\$ 103,840
Fixed Income	13,820	9,761	710	24,291
Money Market	176	1,996		2,172
Total	\$ 69,363	44,255	16,685	\$ 130,303

Table of Contents**Results of Operations Three and Six Months Ended June 30, 2015 as Compared with Three and Six Months Ended June 30, 2014***Net Income*

	Three months ended June 30,			
	2015	2014	Variance	
Net Income (in thousands)	\$ 67,445	82,988	-19%	
Earnings per share, basic and diluted	\$ 0.80	0.98	-18%	
Operating Margin	28.2%	30.9%	-270bps	

	Six months ended June 30,			
	2015	2014	Variance	
Net Income (in thousands)	\$ 134,558	157,852	-15%	
Earnings per share, basic and diluted	\$ 1.61	1.86	-13%	
Operating Margin	27.6%	30.4%	-280bps	

Total Revenues

Total revenues decreased 2% to \$394.0 million for the three months ended June 30, 2015 compared to the three months ended June 30, 2014 due primarily to a decrease in average assets under management of 6% driven by net outflows. For the six months ended June 30, 2015, total revenues decreased \$11.6 million, or 1%, compared to the same period in the prior year due to a decrease in average assets under management of 5% driven by net outflows.

	Three months ended June 30,			
	2015	2014	Variance	
	(in thousands, except percentage data)			
Investment management fees	\$ 185,914	193,624	-4%	
Underwriting and distribution fees	171,508	169,001	1%	
Shareholder service fees	36,568	38,009	-4%	
Total revenues	\$ 393,990	400,634	-2%	

	Six months ended June 30,			
	2015	2014	Variance	

Edgar Filing: WADDELL & REED FINANCIAL INC - Form 10-Q

(in thousands, except percentage data)

Investment management fees	\$	368,019	381,661	-4%
Underwriting and distribution fees		338,486	334,268	1%
Shareholder service fees		72,943	75,121	-3%
Total revenues	\$	779,448	791,050	-1%

Table of Contents

Investment Management Fee Revenues

Investment management fee revenues are earned by providing investment advisory services to the Funds, the IGI Funds and to institutional and separate accounts. Investment management fee revenues for the second quarter of 2015 decreased \$7.7 million, or 4%, from last year's second quarter. For the six month period ended June 30, 2015, investment management fee revenues decreased \$13.6 million, or 4%, compared to the same period in 2014.

Revenues from investment management services provided to our retail mutual funds, which are distributed through the Wholesale, Advisors and Institutional channels, were \$170.8 million for the quarter ended June 30, 2015. Revenues decreased \$8.2 million, or 5%, compared to the second quarter of 2014, while the related retail average assets under management decreased 7% to \$106.2 billion. Investment management revenues decreased less than the related average assets under management due to an increase in the average management fee rate from 62.6 basis points in the second quarter of 2014 to 64.5 basis points in the second quarter of 2015. The increase in the average management fee rate was driven by a mix-shift of assets into investment products with higher management fee rates. Management fee waivers of \$2.7 million and \$2.8 million were recorded as an offset to investment management fees for the three month periods ended June 30, 2015 and June 30, 2014, respectively. Of the total management fee waivers recorded, \$1.8 million and \$2.1 million were related to money market funds for the second quarters of 2015 and 2014, respectively. For the six months ended June 30, 2015, revenues from investment management services provided to our retail mutual funds were \$337.9 million. Revenues decreased \$15.1 million, or 4%, compared to the first six months of 2014, while the related retail average assets decreased 7% to \$105.9 billion. Investment management revenues decreased less than the related average assets under management due to an increase in the average management fee rate from 62.7 basis points for the first six months of 2014 to 64.3 basis points for the first six months of 2015. The increase in the average management fee rate was driven by a mix-shift of assets into investment products with higher management fee rates. Management fee waivers of \$5.3 and \$5.6 million were recorded as an offset to investment management fees for the six months ending June 30, 2015 and June 30, 2014, respectively. Of the total management fee waivers recorded, \$3.6 million was related to money market accounts for the first six months of 2015 and \$4.0 million was related to money market accounts for the first six months of 2014.

Institutional account revenues were \$15.1 million for the second quarter of 2015, representing an increase of \$0.5 million, or 3%, from the second quarter of 2014, while average assets under management increased 1%. Investment management revenues increased more than the related average assets under management due to an increase in the average management fee rate from 34.2 basis points in the second quarter of 2014 to 34.9 basis points in the second quarter of 2015. For the six month period ended June 30, 2015, institutional account revenues were \$30.1 million, an increase of 5% compared to the same period in 2014, and average assets increased 5%.

The long-term redemption rate (which excludes money market fund redemptions) in the Wholesale channel was 31.0% in the second quarter of 2015 and 36.9% year-to-date, compared to 25.1% in the second quarter of 2014 and 23.1% for the first six months of 2014. The increased rate in both periods was driven primarily by redemptions in the Ivy Asset Strategy Fund and Ivy High Income Fund. Prolonged redemptions in the Wholesale channel could negatively affect revenues in future periods. In the Advisors channel, the long-term redemption rate (which excludes money market fund redemptions) was 9.0% for the quarter ended June 30, 2015 compared to 7.9% in the second quarter of 2014. For the six months ended June 30, 2015, the Advisor channel's long-term redemption rate slightly increased to 9.0% compared to 8.1% for the same period in 2014. 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 by focusing on meeting their long-term financial objectives. The long-term redemption rate for our Institutional channel was 23.2% and 19.9% for the second quarter of 2015 and 2014, respectively, and 28.5% for the six month period ended June 30, 2015 compared to 18.5% for the same period in 2014. The increased rate for the six month period ended June 30, 2015 was primarily driven by a client's sovereign wealth fund reallocation.

Table of Contents

Our overall redemption rate of 25.3% for the first six months of 2015 is slightly higher than the current year-to-date industry average of approximately 24%, based on data from the Investment Company Institute.

Underwriting and Distribution Fee Revenues and Expenses

The following tables summarize our underwriting and distribution fee revenues and expenses segregated by distribution channel:

	Wholesale	Second Quarter 2015 Advisors (in thousands)	Total
Revenue	\$ 51,768	119,740	171,508
Expenses - Direct	(66,947)	(85,177)	(152,124)
Expenses - Indirect	(13,972)	(29,666)	(43,638)
Net Distribution (Costs)/Excess	\$ (29,151)	4,897	(24,254)

	Wholesale	Second Quarter 2014 Advisors (in thousands)	Total
Revenue	\$ 60,237	108,764	169,001
Expenses - Direct	(76,834)	(76,867)	(153,701)
Expenses - Indirect	(12,791)	(29,116)	(41,907)
Net Distribution (Costs)/Excess	\$ (29,388)	2,781	(26,607)

	Wholesale	Year to Date 2015 Advisors (in thousands)	Total
Revenue	\$ 103,910	234,576	338,486
Expenses - Direct	(135,542)	(167,199)	(302,741)
Expenses - Indirect	(28,001)	(60,440)	(88,441)
Net Distribution (Costs)/Excess	\$ (59,633)	6,937	(52,696)

	Wholesale	Year to Date 2014 Advisors (in thousands)	Total
Revenue	\$ 119,801	214,467	334,268
Expenses - Direct	(156,534)	(151,564)	(308,098)
Expenses - Indirect	(24,326)	(58,135)	(82,461)
Net Distribution (Costs)/Excess	\$ (61,059)	4,768	(56,291)

Table of Contents

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

	Wholesale	Second Quarter 2015 Advisors (in thousands)	Total
Underwriting and distribution fee revenues			
Rule 12b-1 service and distribution fees	\$ 49,818	31,429	81,247
Fee-based asset allocation product revenues		57,717	57,717
Sales commissions on front-end load mutual fund and variable annuity products	1,015	18,266	19,281
Sales commissions on other products		6,509	6,509
Other revenues	935	5,819	6,754
Total	\$ 51,768	119,740	171,508

	Wholesale	Second Quarter 2014 Advisors (in thousands)	Total
Underwriting and distribution fee revenues			
Rule 12b-1 service and distribution fees	\$ 57,712	30,200	87,912
Fee-based asset allocation product revenues		49,348	49,348
Sales commissions on front-end load mutual fund and variable annuity products	1,638	17,134	18,772
Sales commissions on other products		6,443	6,443
Other revenues	887	5,639	6,526
Total	\$ 60,237	108,764	169,001

	Wholesale	Year to Date 2015 Advisors (in thousands)	Total
Underwriting and distribution fee revenues			
Rule 12b-1 service and distribution fees	\$ 99,742	61,765	161,507
Fee-based asset allocation product revenues		113,139	113,139
Sales commissions on front-end load mutual fund and variable annuity products	1,935	35,192	37,127
Sales commissions on other products		12,787	12,787
Other revenues	2,233	11,693	13,926
Total	\$ 103,910	234,576	338,486

Table of Contents

	Wholesale	Year to Date 2014 Advisors (in thousands)	Total
Underwriting and distribution fee revenues			
Rule 12b-1 service and distribution fees	\$ 114,504	59,131	173,635
Fee-based asset allocation product revenues		96,695	96,695
Sales commissions on front-end load mutual fund and variable annuity products	3,670	34,266	37,936
Sales commissions on other products		12,804	12,804
Other revenues	1,627	11,571	13,198
Total	\$ 119,801	214,467	334,268

Underwriting and distribution revenues earned in the second quarter of 2015 increased by \$2.5 million, or 1%, compared to the second quarter of 2014. In our Advisors channel, revenues from fee-based asset allocation products continued to be meaningful, increasing to 48% of Advisor channel underwriting and distribution revenues in the second quarter of 2015 compared to 45% in the second quarter of 2014. Fee-based asset allocation assets under management grew from \$16.4 billion at June 30, 2014 to \$18.3 billion at June 30, 2015, generating an increase of fee-based asset allocation revenue of \$8.4 million, or 17%, as advisors increasingly utilize fee-based programs for their clients. Rule 12b-1 asset based service and distribution fees across both channels decreased \$6.7 million, or 8%, quarter over quarter, driven by a decrease in average mutual fund assets under management for which we earn Rule 12b-1 revenues. Approximately 75% of Rule 12b-1 revenues earned are a pass-through to direct underwriting and distribution expenses.

For the six months ended June 30, 2015, underwriting and distribution revenues increased \$4.2 million, or 1%, compared with the six months ended June 30, 2014. In our Advisors channel, revenues from fee-based asset allocation products increased \$16.4 million, or 17%, compared to the prior year. Rule 12b-1 asset based service and distribution fees across both channels decreased \$12.1 million, or 7%, compared to the first six months of 2014, driven by a decrease in average mutual fund assets under management for which we earn Rule 12b-1 revenues.

Underwriting and distribution expenses for the second quarter of 2015 increased by \$0.2 million, or less than 1%, compared to the second quarter of 2014. Direct expenses in the Wholesale channel decreased by \$9.9 million due to decreased average wholesale assets under management of 16% and lower sales volume year over year, which resulted in lower dealer compensation, wholesaler commissions and Rule 12b-1 asset-based service and distribution expenses paid to third party distributors. Direct expenses in the Advisors channel grew in relation to revenue, offsetting the decrease in the Wholesale channel. Indirect expenses across both channels increased \$1.7 million, or 4%, compared to the second quarter of 2014, primarily due to increased employee compensation and benefits and advertising expenses, partially offset by lower computer services and software expenses.

For the six months ended June 30, 2015, underwriting and distribution expenses increased by \$0.6 million, or less than 1%, compared to the first six months of 2014. Direct expenses in the Wholesale channel decreased by \$21.0 million due to decreased average wholesale assets under management of 14% and lower sales volume year over year, which resulted in lower dealer compensation, wholesaler commissions and Rule 12b-1 asset-based service and distribution expenses paid to third party distributors. Direct expenses in the Advisors channel grew faster than revenue as a result of higher payout rates due to increased advisor productivity. Indirect expenses, across both channels, during the six months ended June 30, 2015 increased \$6.0 million, or 7%, compared with the six months ended June 30, 2014, primarily due to increased employee compensation and benefits, advertising expenses and business meetings and travel expenses, partially offset by lower computer services and software expenses.

Table of Contents*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 are asset-based and/or account-based revenues, portfolio accounting and administration fees are asset-based revenues and custodian fees from retirement plan accounts are based on the number of client accounts.

During the second quarter of 2015, shareholder service fee revenue decreased \$1.4 million, or 4%, compared to the second quarter of 2014 due to a decrease in asset-based fees. Of the decrease in asset-based fees, fees for the I, Y, R and R6 share classes of the Funds decreased \$1.5 million, or 12%, compared to the second quarter of 2014. Assets in the I, Y, R and R6 share classes of the Funds declined from a quarterly average of \$31.1 billion at June 30, 2014 to an average of \$27.4 billion at June 30, 2015. For the six month period ended June 30, 2015, shareholder service fee revenue decreased \$2.2 million, or 3%, compared to the same period in 2014 due to a decrease in asset-based fees. Asset-based fees during the six months ended June 30, 2015 for the I, Y, R and R6 share classes of the Funds decreased \$2.4 million, or 11%. Assets in the I, Y, R and R6 share classes of the Funds declined from an average of \$30.6 billion at June 30, 2014 to an average of \$27.4 billion at June 30, 2015.

Total Operating Expenses

Operating expenses increased \$6.0 million, or 2%, in the second quarter of 2015 compared to the second quarter of 2014, primarily due to increased compensation and related costs. For the six months ended June 30, 2015, operating expenses increased \$13.1 million, or 2%, compared to the first six months of 2014, primarily due to increased compensation and related costs and increased general and administrative costs.

	Three Months Ended June 30,			Variance
	2015	2014		
(in thousands, except percentage data)				
Underwriting and distribution	\$ 195,762	195,608		0%
Compensation and related costs	52,829	48,589		9%
General and administrative	27,897	27,183		3%
Subadvisory fees	2,394	2,069		16%
Depreciation	4,064	3,541		15%
Total operating expenses	\$ 282,946	276,990		2%

	Six Months Ended June 30,			Variance
	2015	2014		
(in thousands, except percentage data)				
Underwriting and distribution	\$ 391,182	390,559		0%
Compensation and related costs	106,324	98,598		8%
General and administrative	53,575	50,939		5%
Subadvisory fees	4,781	3,946		21%
Depreciation	8,098	6,790		19%
Total operating expenses	\$ 563,960	550,832		2%

Table of Contents

Compensation and Related Costs

On April 2, 2015, we granted 1,028,523 shares of restricted stock with a fair value of \$50.18 per share under the Company's 1998 Stock Incentive Plan, as amended and restated. The value of those shares at the grant date, aggregating \$51.6 million, will generally be amortized to expense over a four-year vesting period.

Compensation and related costs during the second quarter of 2015 increased \$4.2 million, or 9%, compared to the second quarter of 2014. An increase in incentive compensation and base salaries of \$7.1 million was the primary driver. In addition, pension expense increased \$1.0 million compared to the second quarter of 2014. Partially offsetting the increases, share-based compensation decreased \$3.3 million primarily due to estimated forfeiture rate adjustments related to outstanding restricted stock.

For the six months ended June 30, 2015, compensation and related costs increased \$7.7 million, or 8%, compared to the first six months of 2014. An increase in incentive compensation and base salaries of \$10.3 million was the primary driver. Additionally, pension expense increased \$1.7 million compared to the first six months of 2014. Partially offsetting the increases, share-based compensation decreased \$3.9 million primarily due to estimated forfeiture rate adjustments related to outstanding restricted stock.

General and Administrative Costs

General and administrative expenses increased \$0.7 million to \$27.9 million for the second quarter of 2015, compared to the second quarter of 2014. For the six months ended June 30, 2015, general and administrative expenses increased \$2.6 million to \$53.6 million, compared to the same period in 2014. The increase for both comparative periods is due to increased technology consulting and increased computer services and software costs related to the implementation of technology infrastructure initiatives.

Subadvisory Fees

Subadvisory fees represent fees paid to other asset managers for providing advisory services for certain mutual fund portfolios. Gross management fee revenues for products subadvised by others were \$4.4 million for the three months ended June 30, 2015 compared to \$3.9 million for the second quarter of 2014 due to a 21% increase in subadvised average net assets under management. For the six months ended June 30, 2015, gross management fee revenues for products subadvised by others were \$8.9 million compared to \$7.5 million for the same period in 2014 due to a 23% increase in average net assets under management. For both comparative periods, gross management fee revenues for subadvised products increased at a lesser rate than the related average net assets under management due to a decrease in the average management fee rate. Subadvisory expenses during the three and six months ended June 30, 2015 increased in relation to revenue when compared to the same periods in 2014.

Subadvised average assets under management at June 30, 2015 were \$2.6 billion compared to an average of \$2.2 billion at June 30, 2014.

Investment and Other Income and Taxes

Investment and other income was \$9 thousand for the quarter ended June 30, 2015, compared to investment and other income of \$6.1 million in the same period in 2014. The majority of the decrease is related to mark-to-market activity on mutual fund investments held as trading in our investment portfolio. We recorded mark-to-market losses of \$0.9 million in the second quarter of 2015, compared to market-to-market gains of \$3.6 in the second quarter of 2014. The second quarter of 2015 and 2014 included dividend income and realized gains on the sale of available for sale affiliated funds (mutual funds and UCITS sub-funds) of \$1.1 million and \$2.1 million, respectively.

For the six months ended June 30, 2015 and 2014, investment and other income was \$4.0 million and \$10.0 million, respectively. A \$5.5 million decrease in mark-to-market gains on affiliated fund holdings in our trading portfolio was the primary driver of the decrease.

Our effective income tax rate was 37.7% for the second quarter of 2015, as compared to 34.6% for the second quarter of 2014. Due to the sale of a subsidiary in 2013, the Company has deferred tax assets related to capital loss carryforwards that 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. During the second quarter of 2015, a decrease in the fair value of the

Table of Contents

Company's trading securities portfolio increased the valuation allowance, thereby increasing income tax expense by \$0.4 million. During the second quarter of 2014, an increase in the fair value of the Company's trading securities portfolio and realized capital gains on the sale of securities classified as available for sale allowed for a release of a portion of the valuation allowance, thereby reducing income tax expense by \$1.8 million. Additionally, the Company initiated a transaction that recharacterized tax losses on a limited partnership investment from capital to ordinary, thereby releasing a portion of the valuation allowance and reducing income tax expense by \$1.5 million in the second quarter of 2014.

Certain subsidiaries of the Company have deferred tax assets for net operating loss carryforwards in certain states in which these companies file tax returns on a separate company basis. The carryforwards, if not utilized, will expire between 2016 and 2035. The Company has a valuation allowance on the portion of deferred tax assets where it is more likely than not that the asset will not be realized due to an inability to generate sufficient taxable income in future years to utilize the net operating loss carryforwards. Management believes it is more likely than not that the Company will realize a portion of the net operating loss carryforwards based upon historical taxable income and projections for future taxable income on one of its subsidiaries. As such, the Company released a portion of the valuation allowance on state net operating loss carryforward deferred tax assets, which reduced income tax expense by \$0.6 million during the second quarter of 2015.

The second quarter 2015 and 2014 effective income tax rates, removing the effects of the valuation allowance, would have been 37.9% and 37.3%, respectively. The adjusted effective tax rate in the second quarter of 2015 was higher primarily due to increased unrecognized state tax benefits relating to prior periods for which the outcome is uncertain and lower income before taxes in the second quarter of 2015, which increased the impact of non-deductible expenses on the effective income tax rate.

Our effective income tax rate was 37.1% for the six months ended June 30, 2015, as compared to 35.5% for the six months ended June 30, 2014. During 2015, realized capital gains on the sale of securities classified as available for sale allowed for a release of a portion of the valuation allowance, thereby reducing income tax expense by \$0.8 million. Additionally, the Company released a portion of the valuation allowance on state net operating loss carryforward deferred tax assets, which reduced income tax expense by \$0.6 million. During 2014, an increase in the fair value of the Company's trading securities portfolio and realized capital gains on the sale of securities classified as available for sale allowed for a release of a portion of the valuation allowance, thereby reducing income tax expense by \$3.0 million. Additionally, recharacterized tax losses on a limited partnership investment mentioned above reduced income tax expense by \$1.5 million in 2014.

Removing the effects of the valuation allowance for the six months ended June 30, 2015 and 2014, the effective income tax rate would have been 37.8% and 37.3%, respectively. The adjusted effective tax rate in 2015 was higher primarily due to increased unrecognized state tax benefits relating to prior periods for which the outcome is uncertain and lower income before taxes in 2015, which increased 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 requires cash outlays for wholesaler commissions and commissions to third parties on deferred load product sales. We continue to

Table of Contents

invest in our Advisors channel by providing additional support to our advisors through home office resources, wholesaling efforts and enhanced technology tools. Across both channels, we provide seed money for new products.

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

Pay Dividends

We paid quarterly dividends on our Class A common stock that resulted in financing cash outflows of \$72.2 million and \$58.0 million for the first six months of 2015 and 2014, respectively.

Repurchase Our Stock

We repurchased 622,591 shares and 908,208 shares of our Class A common stock in the open market or privately during the six months ended June 30, 2015 and 2014, respectively, resulting in cash outflows of \$30.0 million and \$61.7 million, respectively.

Operating Cash Flows

Cash from operations, our primary source of funds, increased \$26.7 million for the six months ended June 30, 2015 compared to the six months ended June 30, 2014. The increase is primarily due to net purchases of trading securities of \$18.3 million in 2014 and decreased cash outlay in 2015 for payment of upfront commissions for certain fee-based asset allocation products, due to changes to the advisor compensation plan in the second quarter of 2014.

The payable to investment companies for securities, payable to customers and other receivables accounts can fluctuate significantly based on trading activity at the end of a reporting period. Changes in these accounts result in variances within cash from operations on the statement of cash flows; however, there is no impact to the Company's liquidity and operations for the variances in these accounts.

During the first quarter of 2015, we contributed \$20.0 million to our pension plan. We do not expect to make additional contributions for the remainder of the year.

Investing Cash Flows

Investing activities consist primarily of the purchase, sale and maturities of available for sale investment securities, as well as capital expenditures. We expect our 2015 capital expenditures to be in the range of \$25.0 to \$35.0 million.

Financing Cash Flows

As noted previously, dividends and stock repurchases accounted for a majority of our financing cash outflows in the first six months of 2015 and 2014.

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 enhancement of technology infrastructure, 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, pension funding, 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 settlement 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, pension funding, share repurchases and payment of upfront fund commissions for Class C shares and certain fee-based asset allocation products. We expect payment of upfront fund commissions for certain fee-based asset allocation products will decline in future years due to a change in our advisor compensation plan whereby a smaller population of

Table of Contents

advisors are eligible for upfront commissions on the sale of these products.

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 Form 10-K for the year ended December 31, 2014 (the 2014 Form 10-K).

Our indefinite life intangible asset balance includes \$8.4 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 June 30, 2015, the associated deferred tax liability is \$3.1 million.

The fair value of this intangible asset exceeded its carrying amount by 10% when performing our annual testing for impairment during the second quarter of 2015, which represented a slight increase in the percentage by which the fair value exceeded the carrying amount when compared to the previous year. We will continue to perform the impairment analysis more frequently than on an annual basis. There are no indicators of impairment as of June 30, 2015.

The fair value of our other indefinite life intangible assets exceeded its carrying value by more than 100%. Related to goodwill, the fair value of the reporting unit also exceeded its carrying value by more than 100%.

Table of Contents**Supplemental Information**

	Second Quarter 2015	Second Quarter 2014	Variance	Year to Date 2015	Year to Date 2014	Variance
<u>Channel highlights</u>						
Number of wholesalers	62	60	3.3%	62	60	3.3%
Number of advisors	1,780	1,740	2.3%	1,780	1,740	2.3%
Advisor productivity (in thousands)(1)	\$ 67.9	62.4	8.8%	\$ 133.8	123.3	8.5%
<u>Redemption rates - long term assets</u>						
Wholesale	31.0%	25.1%		36.9%	23.1%	
Advisors	9.0%	7.9%		9.0%	8.1%	
Institutional	23.2%	19.9%		28.5%	18.5%	
Total	21.7%	18.7%		25.3%	17.5%	
<u>Operating highlights</u>						
Organic growth (decay) annualized	(3.4)%	3.7%		(7.5)%	9.3%	
Total assets under management (in millions)	\$ 120,706	135,633	(11.0)%	\$ 120,706	135,633	(11.0)%
Operating margin	28.2%	30.9%		27.6%	30.4%	
<u>Diversification (company total)</u>						
<i>As % of Sales</i>						
Asset Strategy	12.5%	26.3%		14.7%	30.3%	
Fixed Income	16.8%	25.4%		20.2%	24.2%	
Other	70.7%	48.3%		65.1%	45.5%	
<i>As % of Assets Under Management</i>						
Asset Strategy	25.7%	32.9%		25.7%	32.9%	
Fixed Income	17.5%	18.7%		17.5%	18.7%	
Other	56.8%	48.4%		56.8%	48.4%	
<u>Shareholder service fees</u>						
Average assets for I, Y, R and R6 share classes (in millions)	\$ 27,362	31,134	(12.1)%	\$ 27,437	30,586	(10.3)%
Number of shareholder accounts (in thousands)	4,432	4,454	(0.5)%	4,432	4,454	(0.5)%

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

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are primarily exposed to market risk associated with unfavorable movements in interest rates and securities prices. The Company has had no material changes in its market risk policies or its market risk sensitive instruments and positions from that previously reported in the Company's 2014 Form 10-K.

Item 4. Controls and Procedures

The Company maintains a system of disclosure controls and procedures that is designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. 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 Exchange Act) as of June 30, 2015, have concluded that the Company's disclosure controls and procedures were effective as of June 30, 2015.

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 fiscal quarter ended June 30, 2015 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 2014 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 Class A common stock we repurchased during the second quarter of 2015.

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
April 1 - April 30	320,533	\$ 50.16	14,000	n/a(1)
May 1 - May 31	166,000	47.62	166,000	n/a(1)
June 1 - June 30	30,000	47.35	30,000	n/a(1)
Total	516,533	\$ 49.18	210,000	

(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 second quarter of 2015,

210,000 shares of our common stock were repurchased pursuant to the repurchase program and 306,533 shares, reflected in the table above, were purchased in connection with funding employee income tax withholding obligations arising from the vesting of restricted shares.

Table of Contents

Item 6. Exhibits

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 June 30, 2015, 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.

* Filed herewith

** Furnished herewith

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 31st day of July 2015.

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
(Principal Accounting Officer)