

Section 1: 10-Q (10-Q)

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**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, 2018

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" 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"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>
	Emerging growth company <input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 27, 2018
Class A common stock, \$.01 par value	79,759,291

WADDELL & REED FINANCIAL, INC.
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Quarter Ended June 30, 2018

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

WADDELL & REED FINANCIAL, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(in thousands)

	June 30, 2018 (Unaudited)	December 31, 2017
Assets:		
Cash and cash equivalents	\$ 240,420	207,829
Cash and cash equivalents - restricted	25,872	28,156
Investment securities	584,769	700,492
Receivables:		
Funds and separate accounts	23,176	25,664
Customers and other	133,915	131,108
Prepaid expenses and other current assets	34,768	25,593
Total current assets	<u>1,042,920</u>	<u>1,118,842</u>
Property and equipment, net	77,154	87,667
Goodwill and identifiable intangible assets	145,869	147,069
Deferred income taxes	10,531	13,308
Other non-current assets	11,308	17,476
Total assets	<u>\$1,287,782</u>	<u>1,384,362</u>
Liabilities:		
Accounts payable	\$ 36,208	38,998
Payable to investment companies for securities	61,695	43,422
Payable to third party brokers	24,237	25,153
Payable to customers	51,236	66,830
Short-term notes payable	—	94,996
Accrued compensation	46,192	47,643
Other current liabilities	41,925	44,797
Total current liabilities	<u>261,493</u>	<u>361,839</u>
Long-term debt	94,819	94,783
Accrued pension and postretirement costs	14,027	15,137
Other non-current liabilities	14,673	25,210
Total liabilities	<u>385,012</u>	<u>496,969</u>
Commitments and contingencies		
Redeemable noncontrolling interests	17,052	14,509
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; 80,355 shares outstanding (82,687 at December 31, 2017)	997	997
Additional paid-in capital	302,144	301,410
Retained earnings	1,144,090	1,092,394
Cost of 19,346 common shares in treasury (17,014 at December 31, 2017)	(560,181)	(522,441)
Accumulated other comprehensive (loss) income	(1,332)	524
Total stockholders' equity	<u>885,718</u>	<u>872,884</u>
Total liabilities, redeemable noncontrolling interests and stockholders' equity	<u>\$1,287,782</u>	<u>1,384,362</u>

See accompanying notes to the unaudited consolidated financial statements.

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WADDELL & REED FINANCIAL, INC. AND SUBSIDIARIES

Consolidated Statements of Income

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

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Revenues:				
Investment management fees	\$ 130,391	130,878	\$ 264,083	261,314
Underwriting and distribution fees	137,873	128,776	275,914	257,607
Shareholder service fees	27,074	27,003	52,956	54,300
Total	<u>295,338</u>	<u>286,657</u>	<u>592,953</u>	<u>573,221</u>
Operating expenses:				
Distribution	114,315	109,060	228,785	217,497
Compensation and benefits (including share-based compensation of \$14,902, \$14,054, \$29,670 and \$28,239, respectively)	65,828	65,332	134,613	132,367
General and administrative	19,143	23,287	38,681	45,482
Technology	17,235	17,780	33,879	34,757
Occupancy	6,969	7,548	13,933	15,333
Marketing and advertising	2,896	3,264	5,177	5,875
Depreciation	5,819	5,175	11,121	10,396
Subadvisory fees	3,683	3,194	7,391	5,891
Intangible asset impairment	1,200	900	1,200	1,500
Total	<u>237,088</u>	<u>235,540</u>	<u>474,780</u>	<u>469,098</u>
Operating income	58,250	51,117	118,173	104,123
Investment and other income	841	2,997	3,657	6,009
Interest expense	<u>(1,551)</u>	<u>(2,788)</u>	<u>(3,353)</u>	<u>(5,574)</u>
Income before provision for income taxes	57,540	51,326	118,477	104,558
Provision for income taxes	13,284	26,608	28,250	45,489
Net income	<u>44,256</u>	<u>24,718</u>	<u>90,227</u>	<u>59,069</u>
Net (loss) income attributable to redeemable noncontrolling interests	<u>(222)</u>	<u>656</u>	<u>(588)</u>	<u>1,136</u>
Net income attributable to Waddell & Reed Financial, Inc.	<u>\$ 44,478</u>	<u>24,062</u>	<u>\$ 90,815</u>	<u>57,933</u>
Net income per share attributable to Waddell and Reed Financial, Inc. common shareholders, basic and diluted:	\$ 0.55	0.29	\$ 1.10	0.69
Weighted average shares outstanding, basic and diluted:	81,449	83,611	82,275	83,843

See accompanying notes to the unaudited consolidated financial statements.

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WADDELL & REED FINANCIAL, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(Unaudited, in thousands)

	<u>For the three months</u> <u>ended June 30,</u>		<u>For the six months</u> <u>ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Net income	\$44,256	24,718	\$90,227	59,069
Other comprehensive income:				
Unrealized appreciation (depreciation) of available for sale investment securities during the period, net of income tax expense (benefit) of \$53, \$(192), \$(298) and \$(1,673), respectively	169	1,235	(962)	4,834
Postretirement benefit, net of income tax benefit of \$(7), \$(17), \$(15) and \$(34), respectively	<u>(23)</u>	<u>(28)</u>	<u>(46)</u>	<u>(57)</u>
Comprehensive income	44,402	25,925	89,219	63,846
Comprehensive (loss) income attributable to redeemable noncontrolling interests	<u>(222)</u>	<u>656</u>	<u>(588)</u>	<u>1,136</u>
Comprehensive income attributable to Waddell & Reed Financial, Inc.	<u>\$44,624</u>	<u>25,269</u>	<u>\$89,807</u>	<u>62,710</u>

See accompanying notes to the unaudited consolidated financial statements.

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WADDELL & REED FINANCIAL, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders' Equity and Redeemable Noncontrolling Interests

For the Six Months Ended June 30, 2018

(Unaudited, in thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Redeemable Non Controlling interest
	Shares	Amount						
Balance at December 31, 2017	99,701	997	301,410	1,092,394	(522,441)	524	872,884	14,509
Adoption of recognition and measurement of financial assets and liabilities guidance (ASU 2016-01) on January 1, 2018	—	—	—	812	—	(812)	—	—
Adoption of reclassification of tax effects from accumulated other comprehensive income (loss) guidance (ASU 2018-02) on January 1, 2018	—	—	—	36	—	(36)	—	—
Net income	—	—	—	90,815	—	—	90,815	(588)
Net subscription of redeemable noncontrolling interests in sponsored funds	—	—	—	—	—	—	—	3,131
Recognition of equity compensation	—	—	23,643	913	—	—	24,556	—
Net issuance/forfeiture of nonvested shares	—	—	(22,909)	—	22,909	—	—	—
Dividends accrued, \$0.50 per share	—	—	—	(40,880)	—	—	(40,880)	—
Repurchase of common stock	—	—	—	—	(60,649)	—	(60,649)	—
Other comprehensive loss	—	—	—	—	—	(1,008)	(1,008)	—
Balance at June 30, 2018	99,701	\$ 997	302,144	1,144,090	(560,181)	(1,332)	885,718	17,052

See accompanying notes to the unaudited consolidated financial statements.

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WADDELL & REED FINANCIAL, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Unaudited, in thousands)

	For the six months ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$ 90,227	59,069
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,121	10,396
Write-down of impaired assets	1,200	1,500
Amortization of deferred sales commissions	1,890	2,675
Share-based compensation	29,670	28,239
Investments loss (gain), net	4,536	(4,662)
Net purchases of trading securities	(8,338)	(15,613)
Deferred income taxes	3,090	1,515
Net change in equity securities and trading debt securities held by consolidated sponsored funds	70,759	(114,407)
Other	2,092	209
Changes in assets and liabilities:		
Customer and other receivables	(2,807)	28,823
Payable to investment companies for securities and payable to customers	2,679	(33,943)
Receivables from funds and separate accounts	2,488	5,994
Other assets	(1,932)	3,052
Accounts payable and payable to third party brokers	(3,706)	(6,805)
Other liabilities	(29,888)	3,857
Net cash provided by (used in) operating activities	<u>\$ 173,081</u>	<u>(30,101)</u>
Cash flows from investing activities:		
Purchases of available for sale and equity method securities	(27,093)	(28,881)
Proceeds from sales of equity and equity method securities	—	14,917
Proceeds from maturities of available for sale securities	77,966	—
Additions to property and equipment	(1,142)	(3,704)
Net cash provided by (used in) investing activities	<u>\$ 49,731</u>	<u>(17,668)</u>
Cash flows from financing activities:		
Dividends paid	(41,481)	(77,236)
Repurchase of common stock	(59,195)	(12,013)
Repayment of short-term debt, net of debt issuance costs	(94,960)	—
Net subscriptions, (redemptions, distributions and deconsolidations) of redeemable noncontrolling interests in sponsored funds	3,131	16,929
Other	—	87
Net cash used in financing activities	<u>\$ (192,505)</u>	<u>(72,233)</u>
Net increase (decrease) in cash and cash equivalents	30,307	(120,002)
Cash, cash equivalents, and restricted cash at beginning of period	<u>235,985</u>	<u>586,239</u>
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 266,292</u>	<u>466,237</u>

See accompanying notes to the unaudited consolidated financial statements.

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. (hereinafter referred to as the “Company,” “we,” “our” or “us”) is a holding company, incorporated in the state of Delaware in 1981, that conducts business through its subsidiaries. Founded in 1937, we are one of the oldest mutual fund complexes in the United States, having introduced the Waddell & Reed Advisors group of mutual funds (the “Advisors Funds”) in 1940. Over time, we added additional mutual funds: Ivy Funds (the “Ivy Funds”); Ivy Variable Insurance Portfolios, our variable product offering (“Ivy VIP”); InvestEd Portfolios, our 529 college savings plan (“InvestEd”); and the Ivy High Income Opportunities Fund, a closed-end mutual fund (“IVH”). In 2016, we introduced the Ivy NextShares® exchange-traded managed funds (“Ivy NextShares”) (collectively, Ivy Funds, Ivy VIP, InvestEd, IVH, and Ivy NextShares are referred to as the “Funds”). On February 26, 2018, we completed the merger of Advisor Funds into Ivy Funds with substantially similar objectives and strategies. As of June 30, 2018, we had \$78.7 billion in assets under management.

We derive our revenues from providing investment management and advisory services, investment product underwriting and distribution, and shareholder services administration to the 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 fees earned on fee-based asset allocation programs and related advisory services, asset-based service and distribution fees promulgated under the 1940 Act (“Rule 12b-1”), 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 services, dealer services, information technology, occupancy and marketing and advertising.

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, 2017 (the “2017 Form 10-K”). Certain amounts in the prior year’s financial statements have been reclassified for consistent presentation.

The accompanying unaudited consolidated financial statements are prepared consistent with the accounting policies described in Note 1 to the consolidated financial statements included in our 2017 Form 10-K with the exception of the adoption of Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts from Customers,” ASU 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities,” ASU 2016-18, “Statement of Cash Flows: Restricted Cash,” ASU 2017-07, “Compensation-Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,” and ASU 2018-02, “Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income,” with all ASUs effective January 1, 2018.

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The implementation of ASU 2014-09 did not have a material impact on the measurement or recognition of revenue from prior periods. See Note 3 – Revenue Recognition, for additional accounting policy information and the additional disclosures required by this ASU. Upon adoption of ASU 2016-01, we reclassified net unrealized holding gains, net of taxes, related to our available for sale investment portfolio from accumulated other comprehensive income to retained earnings. See consolidated statement of stockholders' equity and redeemable noncontrolling interests for the financial statement reclassification impact of adopting this ASU. Upon adoption of ASU 2016-18, the Cash and cash equivalents – restricted financial statement line item is included as a component of cash and cash equivalents on the Company's consolidated statements of cash flows for all periods presented. The adoption of ASU 2017-07 changed the income statement presentation of our noncontributory retirement plan that covers substantially all employees and certain vested employees of our former parent company (the "Pension Plan") by requiring separation between operating expense (service cost component) and non-operating expense (all other components, including interest cost, amortization of prior service cost, mark-to-market gains and losses, curtailments and settlements, etc.). In addition, only the service cost component is eligible for capitalization as part of an asset. The adoption of this ASU had no effect on our net income because it only impacts the classification of certain information on the consolidated statements of income. An amendment to freeze the Pension Plan was approved effective September 30, 2017; therefore, after September 30, 2017, we no longer incur service costs. The service cost component of net periodic benefit cost was recognized in compensation and related costs through September 30, 2017. The other components of net periodic cost were reclassified to investment and other income (loss) on a retrospective basis. Upon early adoption of ASU 2018-02 tax effects that were stranded in other comprehensive income due to the Tax Reform Act were reclassified from accumulated other comprehensive income to retained earnings. The adoption of this ASU did not have a material impact on our consolidated financial statements and related disclosures. See consolidated statement of stockholders' equity and redeemable noncontrolling interests for the financial statement reclassification impact of adopting this ASU.

Additionally, during the first quarter of 2018, we changed the presentation of certain line items in the consolidated statements of income that are intended to improve the transparency of the Company's financial statements through clearer alignment of operating expenses with financial statement captions. Specifically, the Company revised its accounting policy related to the reporting of indirect underwriting and distribution expenses in the former underwriting and distribution caption and certain expenses historically reported as general and administrative. Expenses previously recorded as Underwriting and distribution expenses were retrospectively reclassified into (a) the following existing operating expense captions: Compensation and benefits and General and administrative, and (b) the following newly created operating expense captions: Distribution, Technology, Occupancy, and Marketing and advertising. Certain expenses historically reported as general and administrative were retrospectively reclassified into the following newly created operating expense captions: Technology, Occupancy, and Marketing and advertising. The Company considers the change in policy to be preferable and does not consider the change to be material to its consolidated financial statements. These changes were applied retrospectively to all periods presented and do not affect net income attributable to the Company.

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, 2018 and the results of operations and cash flows for the six months ended June 30, 2018 and 2017 in conformity with accounting principles generally accepted in the United States.

2. New Accounting Guidance

In February 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-02, “Leases,” which increases transparency and comparability among organizations by establishing a right-of-use model that requires a lessee to record a right-of-use asset and a lease liability on the balance sheet with additional disclosures of key information about leasing arrangements. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted and certain practical expedients are available. The Company expects to adopt the provisions of this guidance on January 1, 2019. The Company is in the process of identifying its impacted leases and continues to evaluate the impact that the ASU will have on its consolidated financial statements and related disclosures.

In June 2018, FASB issued ASU 2018-07, *Compensation – Stock Compensation: Improvements to Nonemployee Share-Based Payment Accounting*, which simplifies the accounting for share-based payments granted to nonemployees by aligning the accounting with the requirements for employee share-based compensation. This ASU is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. We are evaluating the estimated impact the adoption of this ASU will have on our consolidated financial statements and related disclosures.

3. Revenue Recognition

As of January 1, 2018, the Company adopted ASU 2014-09, “*Revenue from Contracts with Customers*” and all subsequent ASUs that modified ASC 606, “*Revenue from Contracts with Customers*.” The Company elected to apply the standard utilizing the cumulative effect approach. The implementation of the new standard did not have a material impact on the measurement or recognition of revenue.

Investment Management and Advisory Fees

We recognize investment management fees as earned over the period in which investment management services are provided. While our investment management contracts are long-term in nature, the performance obligations are generally satisfied daily or monthly based on assets under management. We calculate investment management fees from the Funds daily based upon average daily net assets under management in accordance with investment management agreements between the Funds and the Company. The majority of investment and/or advisory fees earned from institutional and separate accounts are calculated either monthly or quarterly based upon an average of net assets under management in accordance with such investment management agreements. The Company may waive certain fees for investment management services at its discretion, or in accordance with contractual expense limitations, and these waivers are reflected as a reduction to investment management fees on the consolidated statements of income.

Our investment advisory business receives research products and services from broker-dealers through soft dollar arrangements. Consistent with the soft dollar safe harbor established by Section 28(e) of the Securities Exchange Act of 1934, as amended, the investment advisory business does not have any contractual obligation requiring it to pay for research products and services obtained through soft dollar arrangements with brokers. As a result, we present soft dollar arrangements on a net basis.

The Company has contractual arrangements with third parties to provide subadvisory services. Investment advisory fees are recorded gross of any subadvisory payments and are included in investment management fees based on management’s determination that the Company is acting in the capacity of principal service provider with respect to its relationship with the Funds. Any corresponding fees paid to subadvisors are included in operating expenses.

Underwriting, Distribution and Shareholder Service Fees

Fee-based asset allocation revenues are calculated monthly based upon average daily net assets under management. For certain types of investment products, primarily variable annuities, distribution revenues are generally calculated based upon average daily net assets under management. Fees collected from independent financial advisors associated with Waddell & Reed, Inc. for various services are recorded in underwriting and distribution fees on a gross basis, as the Company is the principal in these arrangements.

Under a Rule 12b-1 service plan, the Funds may charge a maximum fee of 0.25% of the average daily net assets under management for Ivy Funds Class B, C, E and Y shares for expenses paid to broker-dealers and other sales professionals in connection with providing ongoing services to the Funds' shareholders and/or maintaining the Funds' shareholder accounts, with the exception of the Funds' Class R shares, for which the maximum fee is 0.50%. The Funds' Class B and Class C shares may charge a maximum of 0.75% of the average daily net assets under management under a Rule 12b-1 distribution plan to broker-dealers and other sales professionals for their services in connection with distributing shares of that class. The Funds' Class A shares may charge a maximum fee of 0.25% of the average daily net assets under management under a Rule 12b-1 service and distribution plan for expenses detailed previously. The Rule 12b-1 plans are subject to annual approval by the Funds' board of trustees, including a majority of the disinterested members, by votes cast in person at a meeting called for the purpose of voting on such approval. All Funds may terminate the service and distribution plans at any time with approval of fund trustees or portfolio shareholders (a majority of either) without penalty.

Underwriting and distribution commission revenues resulting from the sale of investment products are recorded upon satisfaction of performance obligations, which occurs on the trade date. When a client purchases Class A or Class E shares (front-end load), the client pays an initial sales charge of up to 5.75% of the amount invested. The sales charge for Class A or Class E shares typically declines as the investment amount increases. In addition, investors may combine their purchases of all fund shares to qualify for a reduced sales charge. When a client invests in a fee-based asset allocation product, Class I or Y shares are purchased at net asset value, and we do not charge an initial sales charge.

Underwriting and distribution revenues resulting from payments from independent financial advisors for office space, compliance oversight and affiliation fees are earned over the period in which the service is provided, which is generally monthly and is based on a fee schedule.

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. Custodian fees, transfer agency fees and portfolio accounting and administration fees are earned upon completion of the service when all performance obligations have been satisfied.

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All revenue recognized in the consolidated statements of income is considered to be revenue from contracts with customers. The vast majority of revenue is determined based on average assets and is earned daily or monthly or is transactional and is earned on the trade date. As such, revenue from remaining performance obligations is not significant. The following table depicts the disaggregation of revenue by product and distribution channel:

	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
	(in thousands)		(in thousands)	
Investment management fees:				
Unaffiliated and Broker-Dealer	\$ 124,766	124,686	252,429	248,486
Institutional	5,625	6,192	11,654	12,828
Total investment management fees	\$ 130,391	130,878	264,083	261,314
Underwriting and distribution fees:				
Unaffiliated				
Rule 12b-1 service and distribution fees	\$ 20,051	22,852	41,027	46,869
Sales commissions on front-end load mutual fund and variable annuity sales	507	319	977	765
Other revenues	148	353	333	779
Total unaffiliated distribution fees	\$ 20,706	23,524	42,337	48,413
Broker-Dealer				
Fee-based asset allocation product revenues	\$ 66,580	58,313	132,097	115,069
Rule 12b-1 service and distribution fees	18,109	18,863	36,486	37,518
Sales commissions on front-end load mutual fund and variable annuity sales	13,823	14,529	28,249	28,855
Sales commissions on other products	9,065	8,460	17,487	15,697
Other revenues	9,590	5,087	19,258	12,055
Total broker-dealer distribution fees	117,167	105,252	233,577	209,194
Total distribution fees	\$ 137,873	128,776	275,914	257,607
Shareholder service fees:				
Total shareholder service fees	\$ 27,074	27,003	52,956	54,300
Total revenues	\$ 295,338	286,657	592,953	573,221

4. Investment Securities

Investment securities at June 30, 2018 and December 31, 2017 are as follows:

	June 30, 2018	December 31, 2017
	(in thousands)	
Available for sale securities:		
Certificates of deposit	\$ 8,000	12,999
Commercial paper	—	34,978
Corporate bonds	186,136	197,442
U.S. Treasury bills	22,538	19,779
Total available for sale securities	<u>216,674</u>	<u>265,198</u>
Trading debt securities:		
Certificates of deposit	2,000	1,999
Corporate bonds	59,671	55,414
U.S. Treasury bills	6,855	4,929
Mortgage-backed securities	9	10
Consolidated sponsored funds	37,342	62,038
Total trading securities	<u>105,877</u>	<u>124,390</u>
Equity securities:		
Common stock	202	116
Sponsored funds ⁽¹⁾	167,777	137,857
Sponsored privately offered funds	782	695
Consolidated sponsored funds	30,985	77,048
Total equity securities	<u>199,746</u>	<u>215,716</u>
Equity method securities:		
Sponsored funds	62,472	95,188
Total securities	<u>\$ 584,769</u>	<u>700,492</u>

⁽¹⁾Includes \$124.0 million of investments at December 31, 2017, that were previously reported as available for sale securities prior to the adoption of ASU 2016-01 on January 1, 2018. Refer to Note 1 – Description of Business and Significant Accounting Policies – Basis of Presentation.

Certificates of deposit, corporate bonds and U.S. Treasury bills accounted for as available for sale and held as of June 30, 2018 mature as follows:

	Amortized cost	Fair value
	(in thousands)	
Within one year	\$ 82,240	81,761
After one year but within five years	136,756	134,913
	<u>\$ 218,996</u>	<u>216,674</u>

Certificates of deposit, corporate bonds, U.S. Treasury bills and mortgage-backed securities accounted for as trading and held as of June 30, 2018 mature as follows:

	Fair value
	(in thousands)
Within one year	\$ 19,143
After one year but within five years	44,619
After 10 years	4,773
	<u>\$ 68,535</u>

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The following is a summary of the gross unrealized gains (losses) related to securities classified as available for sale at June 30, 2018:

	Amortized cost	Unrealized gains	Unrealized losses	Fair value
	(in thousands)			
Available for sale securities:				
Certificates of deposit	\$ 8,000	1	(1)	8,000
Corporate bonds	188,014	42	(1,920)	186,136
U.S. Treasury bills	22,982	6	(450)	22,538
	<u>\$218,996</u>	<u>49</u>	<u>(2,371)</u>	<u>216,674</u>

The following is a summary of the gross unrealized gains (losses) related to securities classified as available for sale at December 31, 2017:

	Amortized cost	Unrealized gains	Unrealized losses	Fair value
	(in thousands)			
Available for sale securities:				
Certificates of deposit	\$ 13,000	1	(2)	12,999
Commercial paper	34,836	142	—	34,978
Corporate bonds	198,404	33	(995)	197,442
U.S. Treasury bills	20,019	—	(240)	19,779
	<u>\$266,259</u>	<u>176</u>	<u>(1,237)</u>	<u>265,198</u>

A summary of available for sale investment securities with fair values below carrying values at June 30, 2018 and December 31, 2017 is as follows:

	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
<u>June 30, 2018</u>	(in thousands)					
Certificates of deposit	\$ 2,999	(1)	—	—	2,999	(1)
Corporate bonds	151,822	(1,762)	14,152	(158)	165,974	(1,920)
U.S. Treasury bills	19,566	(450)	—	—	19,566	(450)
	<u>\$ 174,387</u>	<u>(2,213)</u>	<u>14,152</u>	<u>(158)</u>	<u>188,539</u>	<u>(2,371)</u>
<u>December 31, 2017</u>	(in thousands)					
Certificates of deposit	\$ 2,998	(2)	—	—	2,998	(2)
Corporate bonds	192,409	(995)	—	—	192,409	(995)
U.S. Treasury bills	19,779	(240)	—	—	19,779	(240)
	<u>\$ 215,186</u>	<u>(1,237)</u>	<u>—</u>	<u>—</u>	<u>215,186</u>	<u>(1,237)</u>

Based upon our assessment of these investment securities, the time frame the investments have been in a loss position and our intent to hold the investment securities until they have recovered, we determined that a write-down was not necessary at June 30, 2018.

Sponsored Funds

The Company has classified its equity investments in the Ivy Funds as equity method investments (when the Company owns between 20% and 50% of the fund) or equity securities (when the Company owns less than 20% of the fund). These entities do not meet the criteria of a variable interest entity (“VIE”) and are considered to be voting interest entities (“VOE”). The Company has determined the Ivy Funds are VOEs because the structure of the investment products is such that the voting rights held by the equity holders provide for equality among equity investors.

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Sponsored Privately Offered Funds

The Company holds an interest in a privately offered fund structured in the form of a limited liability company. The members of this entity have the substantive ability to remove the Company as managing member or dissolve the entity upon a simple majority vote. This entity does not meet the criteria of a VIE and is considered to be a VOE.

Consolidated Sponsored Funds

The following table details the balances related to consolidated sponsored funds at June 30, 2018, and at December 31, 2017, as well as the Company's net interest in these funds:

	June 30, 2018	December 31, 2017
	(in thousands)	
Cash	\$ 77,306	8,472
Investments	68,327	139,086
Other assets	556	1,588
Other liabilities	(216)	(1,040)
Redeemable noncontrolling interests	(17,052)	(14,509)
Net interest in consolidated sponsored funds	<u>\$ 128,921</u>	<u>133,597</u>

During the three months ended June 30, 2018, we consolidated an Ivy Fund, Ivy NextShares and IGI Funds in which we provided initial seed capital at the time of the funds' formation. In May, we started the process of liquidating the Ivy Global Investors Société d'Investissement à Capital Variable and its Ivy Global Investors sub-funds, including converting the investments held by the funds to cash. When we no longer have a controlling financial interest in a sponsored fund, it is deconsolidated from our consolidated financial statements.

Fair Value

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 carrying amounts of certificates of deposit and commercial paper are measured at amortized cost, which approximates fair value due to the short-time between purchase and expected maturity of the investments. Depending on the nature of the inputs, these investments are generally classified as Level 1 or 2 within the fair value hierarchy. U.S. Treasury bills are valued upon quoted market prices for similar assets in active markets, quoted prices for identical or similar assets that are not active and inputs other than quoted prices that are observable or corroborated by observable market data. 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.

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The following tables summarize our investment securities as of June 30, 2018 and December 31, 2017 that are recognized in our consolidated balance sheets using fair value measurements based on the differing levels of inputs.

<u>June 30, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Other Assets Held at Net Asset Value</u>	<u>Total</u>
	(in thousands)				
Cash equivalents: (1)					
Money market funds	\$ 136,360	—	—	—	136,360
Commercial paper	—	10,222	—	—	10,222
Total cash equivalents	<u>\$ 136,360</u>	<u>10,222</u>	<u>—</u>	<u>—</u>	<u>146,582</u>
Available for sale securities:					
Certificates of deposit	\$ —	8,000	—	—	8,000
Corporate bonds	—	186,136	—	—	186,136
U.S. Treasury bills	—	22,538	—	—	22,538
Trading debt securities:					
Certificates of deposit	—	2,000	—	—	2,000
Corporate bonds	—	59,671	—	—	59,671
U.S. Treasury bills	—	6,855	—	—	6,855
Mortgage-backed securities	—	9	—	—	9
Consolidated sponsored funds	—	37,342	—	—	37,342
Equity securities:					
Common stock	137	—	65	—	202
Sponsored funds	167,777	—	—	—	167,777
Sponsored privately offered funds measured at net asset value (2)	—	—	—	782	782
Consolidated sponsored funds	30,977	8	—	—	30,985
Equity method securities: (3)					
Sponsored funds	<u>62,472</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>62,472</u>
Total	<u>\$261,363</u>	<u>322,559</u>	<u>65</u>	<u>782</u>	<u>584,769</u>

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December 31, 2017	Level 1	Level 2	Level 3	Other Assets Held at Net Asset Value	Total
	(in thousands)				
Cash equivalents: ⁽¹⁾					
Money market funds	\$ 145,785	—	—	—	145,785
Commercial paper	—	11,064	—	—	11,064
Total cash equivalents	<u>\$ 145,785</u>	<u>11,064</u>	<u>—</u>	<u>—</u>	<u>156,849</u>
Available for sale securities:					
Certificates of deposit	\$ —	12,999	—	—	12,999
Commercial paper	—	34,978	—	—	34,978
Corporate bonds	—	197,442	—	—	197,442
U.S. Treasury bills	—	19,779	—	—	19,779
Trading debt securities:					
Certificates of deposit	—	1,999	—	—	1,999
Corporate bonds	—	55,414	—	—	55,414
U.S. Treasury bills	—	4,929	—	—	4,929
Mortgage-backed securities	—	10	—	—	10
Consolidated sponsored funds	—	62,038	—	—	62,038
Equity securities:					
Common stock	116	—	—	—	116
Sponsored funds	137,857	—	—	—	137,857
Sponsored privately offered funds measured at net asset value ⁽²⁾	—	—	—	695	695
Consolidated sponsored funds	77,048	—	—	—	77,048
Equity method securities: ⁽³⁾					
Sponsored funds	95,188	—	—	—	95,188
Total	<u>\$ 310,209</u>	<u>389,588</u>	<u>—</u>	<u>695</u>	<u>700,492</u>

- (1) Cash equivalents include highly liquid investments with original maturities of 90 days or less. Cash investments in actively traded money market funds are measured at NAV and are classified as Level 1. Cash investments in commercial paper are measured at cost, which approximates fair value because of the short time between purchase of the instrument and its expected realization, and are classified as Level 2.
- (2) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.
- (3) Substantially all of the Company's equity method investments are investment companies that record their underlying investments at fair value.

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The following table summarizes the activity of investments categorized as Level 3 for the six months ended June 30, 2018:

	For the six months ended	
	June 30, 2018	
	(in thousands)	
Level 3 assets at December 31, 2017	\$	—
Additions		419
Valuation change		(37)
Redemptions		(317)
Level 3 assets at June 30, 2018	<u>\$</u>	<u>65</u>

5. Derivative Financial Instruments

The Company has in place an economic hedge program that uses total return swap contracts to hedge market risk related to its investments in certain sponsored funds. Certain of the consolidated sponsored funds may utilize derivative financial instruments within their portfolios in pursuit of their stated investment objectives. We do not hedge for speculative purposes.

Excluding derivative financial instruments held in certain consolidated sponsored funds, the Company was party to five total return swap contracts with a combined notional value of \$242.1 million and six total return swap contracts with a combined notional value of \$213.9 million as of June 30, 2018 and December 31, 2017, respectively. These derivative financial instruments are not designated as hedges for accounting purposes. Changes in fair value of the total return swap contracts are recognized in investment and other income on the Company's consolidated statements of income.

The Company posted \$7.0 million and \$9.7 million in cash collateral with the counterparties of the total return swap contracts as of June 30, 2018 and December 31, 2017, respectively. The cash collateral is included in Customers and other receivables on the Company's consolidated balance sheet. The Company does not record its fair value in derivative transactions against the posted collateral.

The following table presents the fair value of the derivative financial instruments, excluding derivative financial instruments held in certain consolidated sponsored funds as of June 30, 2018 and December 31, 2017 and is calculated based on Level 2 inputs:

		June 30,	December 31,
	Balance sheet	2018	2017
	location	Fair value	Fair value
		(in thousands)	
Total return swap contracts	Prepaid expenses and other current assets (liabilities)	\$ 2,477	(1,093)

The following is a summary of net losses recognized in income for the three and six months ended June 30, 2018 and June 30, 2017:

	Income statement	Three months ended		Six months ended	
	location	June 30,		June 30,	
		2018	2017	2018	2017
		(in thousands)		(in thousands)	
Total return swap contracts	Investment and other income	\$ (1,908)	(7,421)	\$ (543)	(18,466)

6. 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) at June 30, 2018 and December 31, 2017 are as follows:

	June 30, 2018	December 31, 2017
	(in thousands)	
Goodwill	\$ 106,970	106,970
Mutual fund management advisory contracts	38,699	38,699
Mutual fund management subadvisory contract	—	1,200
Other	200	200
Total identifiable intangible assets	<u>38,899</u>	<u>40,099</u>
Total	<u>\$ 145,869</u>	<u>147,069</u>

During the second quarter of 2018, the balance of the mutual fund management subadvisory contract intangible asset was determined to be impaired due to a termination of the subadvisory agreement.

7. Indebtedness

Debt is reported at its carrying amount in the consolidated balance sheet. The fair value of the Company's senior unsecured note maturing January 13, 2021 is \$98.7 million at June 30, 2018 compared to the carrying value net of debt issuance costs of \$94.8 million, which is listed under long-term debt in the consolidated balance sheet. Fair value is calculated based on Level 2 inputs.

8. Income Tax Uncertainties

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 non-current deferred income taxes. As of June 30, 2018 and December 31, 2017, the Company's consolidated balance sheet included unrecognized tax benefits, including penalties and interest, of \$2.7 million (\$2.3 million net of federal benefit) and \$10.9 million (\$8.9 million net of federal benefit), respectively, that, if recognized, would impact the Company's effective tax rate. The Company finalized a voluntary disclosure agreement with a state tax jurisdiction in June 2018, which reduced unrecognized tax benefits by \$9.3 million (\$7.6 million net of federal benefit).

The Company's accounting policy with respect to interest and penalties related to income tax uncertainties is to classify these amounts as income taxes. The total amount of penalties and interest, net of federal impact, related to income tax uncertainties recognized in the statement of income for the six month period ended June 30, 2018 was a benefit of \$2.7 million. Most of this benefit resulted from the settlement of the previously mentioned voluntary disclosure agreement, which accounted for a \$3.0 million benefit to the statement of income. The total amount of accrued penalties and interest related to uncertain tax positions recognized in the consolidated balance sheet at June 30, 2018 and December 31, 2017 is \$0.7 million (\$0.6 million net of federal benefit) and \$4.0 million (\$3.5 million net of federal benefit), respectively.

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 Company is currently under audit in one state jurisdiction in which it operates. The Company expects to settle the audit in this jurisdiction 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 this audit. Additionally, such settlement is not anticipated to have a significant impact on the results of operations.

The 2014, 2015, 2016, and 2017 federal income tax returns are open tax years that remain subject to potential future audit. State income tax returns for all years after 2013 and, in certain states, income tax returns for 2013, are subject to potential future audit by tax authorities in the Company's major state tax jurisdictions.

9. Pension Plan and Postretirement Benefits Other Than Pension

Benefits payable under the Pension Plan are based on employees' years of service and compensation during the final 10 years of employment. On July 26, 2017, the Compensation Committee of the Company's Board of Directors approved an amendment to freeze the Pension Plan effective September 30, 2017. After September 30, 2017, participants in the Pension Plan do not accrue additional benefits for future service or compensation. Participants retain benefits accumulated as of September 30, 2017 in accordance with the terms of the Pension Plan.

We also sponsor an unfunded defined benefit postretirement medical plan that previously covered substantially all employees, as well as independent financial advisors associated with Waddell & Reed, Inc. The medical plan is contributory with participant contributions adjusted annually. The medical plan does not provide for benefits after age 65 with the exception of a small group of employees that were grandfathered when this plan was established. During the third quarter of 2016, the Company amended this plan to discontinue the availability of coverage for any individuals who retire after December 31, 2016.

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

	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>		<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>Three months ended June 30,</u>		<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>(in thousands)</u>				<u>(in thousands)</u>			
Components of net periodic benefit cost:								
Service cost	\$ —	2,683	\$ —	—	\$ —	5,409	\$ —	—
Interest cost	1,485	1,604	13	14	2,993	3,258	27	29
Expected return on plan assets	(2,062)	(2,558)	—	—	(4,131)	(5,117)	—	—
Actuarial loss (gain) amortization	—	—	(30)	(45)	—	—	(60)	(90)
Prior service cost (credit) amortization	—	—	—	(1)	—	—	(1)	(2)
Transition obligation amortization	—	—	—	—	—	—	—	—
Total	\$ (577)	1,729	\$ (17)	(32)	\$ (1,138)	3,550	\$ (34)	(63)

10. 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,	
	2018	2017	2018	2017
	(in thousands, except per share amounts)			
Net income attributable to Waddell & Reed Financial, Inc.	\$44,478	24,062	\$90,815	57,933
Weighted average shares outstanding, basic and diluted	81,449	83,611	82,275	83,843
Earnings per share, basic and diluted	\$ 0.55	0.29	\$ 1.10	0.69

Dividends

On April 26, 2018, the Board of Directors approved a dividend on our Class A common stock in the amount of \$0.25 per share to stockholders of record on July 11, 2018. The total dividend paid on August 1, 2018 was \$20.1 million and was included in other current liabilities as of June 30, 2018.

Common Stock Repurchases

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

There were 2,098,625 shares and 237,472 shares repurchased in the open market or privately during the three months ended June 30, 2018 and 2017, respectively, which includes 508,625 shares and 237,472 shares, respectively, repurchased from employees who tendered shares to cover their minimum income tax withholdings with respect to vesting of stock awards during these two reporting periods. There were 3,094,934 shares and 714,354 shares repurchased in the open market or privately during the six months ended June 30, 2018 and 2017, respectively, which includes 629,934 shares and 239,354 shares, respectively, repurchased from employees who tendered shares to cover their minimum income tax withholdings with respect to the vesting of stock awards during each of these two reporting periods.

Accumulated Other Comprehensive Income (Loss)

The following tables summarize accumulated other comprehensive income (loss) activity for the three and six months ended June 30, 2018 and June 30, 2017.

<u>Three months ended June 30, 2018</u>	Unrealized gains (losses) on investment securities	Postretirement benefits unrealized gains (losses) (in thousands)	Total accumulated other comprehensive income (loss)
Balance at March 31, 2018	\$ (1,941)	463	(1,478)
Other comprehensive income before reclassification	169	—	169
Amount reclassified from accumulated other comprehensive loss	—	(23)	(23)
Net current period other comprehensive income (loss)	169	(23)	146
Balance at June 30, 2018	\$ (1,772)	440	(1,332)

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	Unrealized gains (losses) on investment securities	Change in valuation allowance for unrealized gains (losses) on investment securities	Postretirement benefits unrealized gains (losses)	Total accumulated other comprehensive income (loss)
		(in thousands)		
Three months ended June 30, 2017				
Balance at March 31, 2017	\$ (2,641)	(1,120)	574	(3,187)
Other comprehensive income before reclassification	722	619	—	1,341
Amount reclassified from accumulated other comprehensive loss	(67)	(39)	(28)	(134)
Net current period other comprehensive income (loss)	655	580	(28)	1,207
Balance at June 30, 2017	<u>\$ (1,986)</u>	<u>(540)</u>	<u>546</u>	<u>(1,980)</u>

	Unrealized gains (losses) on investment securities	Change in valuation allowance for unrealized gains (losses) on investment securities	Pension and postretirement benefits unrealized gains (losses)	Total accumulated other comprehensive income (loss)
		(in thousands)		
Six months ended June 30, 2018				
Balance at December 31, 2017	\$ 145		379	524
Amount reclassified to retained earnings for recently adopted ASUs		(955)	107	(848)
Other comprehensive loss before reclassification		(962)	—	(962)
Amount reclassified from accumulated other comprehensive loss		—	(46)	(46)
Net current period other comprehensive (loss) income		(1,917)	61	(1,856)
Balance at June 30, 2018	<u>\$ (1,772)</u>	<u></u>	<u>440</u>	<u>(1,332)</u>

	Unrealized (gains) losses on investment securities	Change in valuation allowance for unrealized gains (losses) on investment securities	Pension and postretirement benefits unrealized gains (losses)	Total accumulated other comprehensive income (loss)
		(in thousands)		
Six months ended June 30, 2017				
Balance at December 31, 2016	\$ (3,972)	(3,388)	603	(6,757)
Other comprehensive income before reclassification	2,146	2,943	—	5,089
Amount reclassified from accumulated other comprehensive loss	(160)	(95)	(57)	(312)
Net current period other comprehensive income (loss)	1,986	2,848	(57)	4,777
Balance at June 30, 2017	<u>\$ (1,986)</u>	<u>\$ (540)</u>	<u>546</u>	<u>(1,980)</u>

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, 2018			Statement of income line item or retained earnings
	Tax (expense)			
	Pre-tax	benefit	Net of tax	
Reclassifications included in net income:				
Amortization of postretirement benefits	\$ 30	(7)	23	Compensation and benefits and retained earnings
Total	<u>\$ 30</u>	<u>(7)</u>	<u>23</u>	

<u>For the three months ended</u> <u>June 30, 2017</u>				
Tax				
Pre-tax	(expense) benefit	Net of tax	<u>Statement of income line item</u>	
(in thousands)				
Reclassifications included in net income:				
				Investment and other income
Sponsored funds investment gains	\$ 106	(39)	67	(loss)
Valuation allowance	—	39	39	Provision for income taxes
Amortization of postretirement benefits	45	(17)	28	Compensation and benefits and retained earnings
Total	<u>\$ 151</u>	<u>(17)</u>	<u>134</u>	

<u>For the six months ended</u> <u>June 30, 2018</u>				
Tax				
Pre-tax	(expense) benefit	Net of tax	<u>Statement of income line item</u>	
(in thousands)				
Reclassifications included in net income or retained earnings for ASUs adopted in 2018:				
				Investment and other income
Sponsored funds investment gains	\$ 1,295	(340)	955	Compensation and benefits and retained earnings
Amortization of postretirement benefits	60	(121)	(61)	
Total	<u>\$ 1,355</u>	<u>(461)</u>	<u>894</u>	

<u>For the six months ended</u> <u>June 30, 2017</u>				
Tax				
Pre-tax	(expense) benefit	Net of tax	<u>Statement of income line item</u>	
(in thousands)				
Reclassifications included in net income:				
				Investment and other income
Sponsored funds investment gains	\$ 254	(94)	160	Provision for income taxes
Valuation allowance	—	95	95	Compensation and benefits and retained earnings
Amortization of postretirement benefits	92	(35)	57	
Total	<u>\$ 346</u>	<u>(34)</u>	<u>312</u>	

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

The Company establishes reserves for litigation and similar matters when those matters present material loss contingencies that management determines to be both probable and reasonably estimable in accordance with ASC 450, "Contingencies." 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. The Company discloses the nature of the contingency when management believes it is reasonably possible the outcome may be significant to the Company's consolidated financial statements 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.

Shareholder Derivative Litigation

As previously disclosed, in an action filed on April 18, 2016 in the District Court of Johnson County, Kansas, Hieu Phan v. Ivy Investment Management Company, et al. (Case No. I6CV02338 Div. 4), plaintiff filed a putative derivative action on behalf of the nominal defendant, a mutual fund trust affiliated with the Company, alleging breach of fiduciary duty and breach of contract claims relating to an investment held in the affiliated mutual fund by the Company's registered investment adviser subsidiary. On behalf of the nominal defendant trust, plaintiff filed claims against the Company's registered investment adviser subsidiary and current and retired trustees of the trust seeking monetary damages and demanding a jury trial. On May 2, 2017, the nominal defendant trust filed a motion to stay the litigation pending the investigation and recommendation of a special litigation committee formed by the nominal defendant trust. On June 13, 2017, the court granted a 60-day stay until August 12, 2017, after which formal discovery commenced. While the Company denies that any of its subsidiaries breached their fiduciary duties to, or committed a breach of the investment management agreement with, the nominal defendant trust, on January 8, 2018 the parties to the litigation reached a settlement in principle. The settlement contemplates the payment of \$19.9 million (less \$6.0 million for attorney's fees plus nominal costs associated with notice to shareholders), recoverable to the Company through insurance, to the affiliated mutual fund for the benefit of its shareholders. On July 30, 2018, the court entered an order granting final approval of the settlement. The settlement is subject to appeal for 30 days following the court's final approval. The Company has recorded a liability and offsetting receivable from insurance, which are reflected in the Company's 2018 and 2017 consolidated balance sheets.

401(k) Plan Class Action Litigation

In an action filed on June 23, 2017 and amended on June 26, 2017 in the U.S. District Court for the District of Kansas, Schapker v. Waddell & Reed Financial, Inc., et al. (Case No. 17-2365 D. Kan.), Stacy Schapker, a participant in the Company's 401(k) and Thrift Plan, as amended and restated (the "401(k) Plan"), filed a lawsuit against the Company, the Company's Board of Directors, the Administrative Committee of the 401(k) Plan, and unnamed Jane and John Doe Defendants 1-25. The amended complaint, which is filed on behalf of the 401(k) Plan and a proposed class of 401(k) Plan participants, purports to assert claims for breach of fiduciary duty and prohibited transactions under the Employee Retirement Income Security Act of 1974, as amended ("ERISA") based on the 401(k) Plan's offering of investments managed by the Company or its affiliates from June 23, 2011 to present. The amended complaint seeks, among other things, an order compelling the disgorgement of fees paid to the Company and its affiliates by the 401(k) Plan and the restoration of losses to the 401(k) Plan arising from defendants alleged ERISA violations, attorneys' fees and other injunctive and equitable relief. The Company believes the allegations are without merit and intends to vigorously defend this matter. On October 6, 2017, the defendants filed a motion to dismiss the amended complaint, and on February 22, 2018, the court denied the motion to dismiss. On March 8, 2018, the defendants filed their answer and defenses to plaintiff's amended complaint, and on April 23, 2018, the court entered an initial scheduling order. In the opinion of management, the ultimate resolution and outcome of this matter is uncertain. Given the preliminary nature of the proceedings and the Company's dispute over the merits of the claims, the Company is unable to estimate a range of reasonably possible loss, if any, that such matter may represent. While the ultimate resolution of this matter is uncertain, an adverse determination against the Company could have a material adverse impact on our business, financial condition and results of operations.

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, stock repurchases 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,” “will,” “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, 2017, which include, without limitation:

- *The loss of existing distribution relationships or inability to access new distribution relationships;*
- *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;*
- *Changes in our business model, operations and procedures, including our methods of distributing our proprietary products, as a result of evolving fiduciary standards;*
- *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;*
- *Our inability to reduce expenses rapidly enough to align with declines in our revenues due to various factors, including fee pressure, the level of our assets under management or our business environment;*
- *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 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.*

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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, 2017 and as updated in our quarterly reports on Form 10-Q for the year ending December 31, 2018. 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

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 and client activity. Significant increases or decreases in the various securities markets can have a material impact on our results of operations, financial condition and cash flows.

Our products are distributed through our unaffiliated channel, or through our broker-dealer channel by Waddell and Reed, Inc. ("W&R") independent financial advisors. Through our institutional channel, we distribute an array of investment styles to a variety of clients.

Through our unaffiliated channel, we distribute mutual funds through broker-dealers, retirement platforms and registered investment advisers through a team of external and internal wholesalers, as well as a team dedicated to home office relationship coverage.

We manage assets in a variety of investment styles for a variety of types of institutions. The largest percentage client type is other asset managers that hire us to act as subadviser for their branded products; they are typically domestic and foreign distributors of investment products who lack scale or the track record to manage internally, or choose to market multi-manager styles. Our diverse client list also includes pension funds, Taft Hartley plans and endowments.

In our broker-dealer channel, 1,130 independent financial advisors associated with W&R and 339 licensed advisor associates, who operate out of offices located throughout the United States, provide financial advice for retirement, education funding, estate planning and other financial needs for clients.

Operating Results

- Net income attributable to Waddell & Reed Financial, Inc. for the second quarter 2018 was \$44.5 million, or \$0.55 per diluted share, compared to \$24.1 million, or \$0.29 per diluted share, during the second quarter of 2017.
- Revenues of \$295.3 million during the second quarter of 2018 increased 3% compared to the second quarter of 2017. Operating expenses of \$237.1 million during the second quarter of 2018 increased 1% compared to the same quarter in 2017. The operating margin was 19.7% during the second current quarter of 2018, compared to 17.8% during the second quarter of 2017.
- Continued improvement across the 1, 3 and 5-year Lipper and Morningstar rankings in most of our key strategies.
- Average trailing 12-month productivity per advisor increased to \$314 thousand in the second quarter of 2018 compared to \$232 thousand in the second quarter of 2017, as we continue to focus our advisory programs on high performing financial advisors.
- During the second quarter of 2018, we returned \$60.7 million of capital to stockholders through dividends and share repurchases, compared to \$42.5 million in the same period in 2017.
- Our balance sheet remains solid and we ended the second quarter of 2018 with cash and investments of \$808.3 million, excluding redeemable noncontrolling interests in consolidated sponsored funds.

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- In July 2018, we proposed the merger of five Ivy Funds and one Ivy VIP Fund which, if approved by shareholders, are expected to be effective in November 2018.

Assets Under Management

During the second quarter of 2018, assets under management decreased 2% to \$78.7 billion from \$80.2 billion at March 31, 2018 due to net outflows of \$3.1 billion, partially offset by market appreciation of \$1.6 billion.

Change in Assets Under Management⁽¹⁾

	Three months ended June 30, 2018			
	Unaffiliated ⁽²⁾	Institutional	Broker-Dealer	Total
	(in millions)			
Beginning Assets	\$ 31,055	6,449	42,707	80,211
Sales ⁽³⁾	1,779	153	1,002	2,934
Redemptions	(2,646)	(1,652)	(1,770)	(6,068)
Net Exchanges	284	—	(284)	—
Net Flows	(583)	(1,499)	(1,052)	(3,134)
Market Action	310	300	964	1,574
Ending Assets	\$ 30,782	5,250	42,619	78,651

	Three months ended June 30, 2017			
	Unaffiliated ⁽²⁾	Institutional	Broker-Dealer	Total
	(in millions)			
Beginning Assets	\$ 30,182	7,792	43,110	81,084
Sales ⁽³⁾	2,080	78	1,142	3,300
Redemptions	(2,886)	(1,057)	(1,812)	(5,755)
Net Exchanges	235	6	(241)	—
Net Flows	(571)	(973)	(911)	(2,455)
Market Action	696	217	885	1,798
Ending Assets	\$ 30,307	7,036	43,084	80,427

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During the first six months of 2018, assets under management decreased 3% to \$78.7 billion from \$81.1 billion at December 31, 2017 due to net outflows of \$4.6 billion, partially offset by market appreciation of \$2.2 billion.

	Six months ended June 30, 2018			
	Unaffiliated ⁽²⁾	Institutional	Broker-Dealer	Total
	(in millions)			
Beginning Assets	\$ 31,133	6,289	43,660	81,082
Sales ⁽³⁾	4,025	705	2,002	6,732
Redemptions	(5,339)	(2,257)	(3,727)	(11,323)
Net Exchanges	531	—	(531)	—
Net Flows	(783)	(1,552)	(2,256)	(4,591)
Market Action	432	513	1,215	2,160
Ending Assets	\$ 30,782	5,250	42,619	78,651

	Six months ended June 30, 2017			
	Unaffiliated ⁽²⁾	Institutional	Broker-Dealer	Total
	(in millions)			
Beginning Assets	\$ 30,295	7,904	42,322	80,521
Sales ⁽³⁾	3,879	222	2,119	6,220
Redemptions	(6,593)	(1,786)	(3,682)	(12,061)
Net Exchanges	471	6	(477)	—
Net Flows	(2,243)	(1,558)	(2,040)	(5,841)
Market Action	2,255	690	2,802	5,747
Ending Assets	\$ 30,307	7,036	43,084	80,427

- (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) Unaffiliated includes National channel (home office and wholesale), Defined Contribution Investment Only, Registered Investment Advisor and Variable Annuity.
- (3) Sales is primarily gross sales (net of sales commissions). This amount also includes net reinvested dividends and capital gains and investment income.

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Average Assets Under Management

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

	Three months ended June 30, 2018			
	Unaffiliated	Institutional	Broker-Dealer	Total
	(in millions)			
Asset Class:				
Equity	\$ 25,045	5,664	31,795	\$62,504
Fixed Income	5,710	79	9,888	15,677
Money Market	91	—	1,722	1,813
Total	\$ 30,846	5,743	43,405	\$79,994

	Three months ended June 30, 2017			
	Unaffiliated	Institutional	Broker-Dealer	Total
	(in millions)			
Asset Class:				
Equity	\$ 23,224	6,855	31,134	\$61,213
Fixed Income	6,836	375	10,239	17,450
Money Market	103	—	1,878	1,981
Total	\$ 30,163	7,230	43,251	\$80,644

	Six months ended June 30, 2018			
	Unaffiliated	Institutional	Broker-Dealer	Total
	(in millions)			
Asset Class:				
Equity	\$ 24,982	6,026	32,420	\$ 63,428
Fixed Income	5,755	86	10,068	15,909
Money Market	93	—	1,767	1,860
Total	\$ 30,830	6,112	44,255	\$ 81,197

	Six months ended June 30, 2017			
	Unaffiliated	Institutional	Broker-Dealer	Total
	(in millions)			
Asset Class:				
Equity	\$ 23,144	7,198	31,333	\$61,675
Fixed Income	6,872	382	10,084	17,338
Money Market	110	—	1,914	2,024
Total	\$ 30,126	7,580	43,331	\$81,037

Assets Under Administration

Assets under administration (“AUA”) include assets for which we provide administrative services such as client assets invested in other companies’ products that we offer outside of our fee-based asset allocation programs. These assets include those held in clients’ brokerage accounts. AUA are presented below.

(in millions)	Three months ended	Three months ended
	June 30, 2018	June 30, 2017
AUA		
Advisory assets	\$ 22,868	19,535
Non-advisory assets	34,210	34,373
Total assets under administration	\$ 57,078	53,908
Net new advisory assets ¹	\$ 315	22
Net new non-advisory assets ^{1,2}	(916)	(693)
Total net new assets ¹	\$ (601)	(671)
Annualized advisory AUA growth ³	5.7 %	0.5 %
Annualized AUA growth ³	(4.3)%	(5.0)%
(in millions)	Six months ended	Six months ended
	June 30, 2018	June 30, 2017
AUA		
Advisory assets	\$ 22,868	19,535
Non-advisory assets	34,210	34,373
Total assets under administration	\$ 57,078	53,908
Net new advisory assets ¹	\$ 707	(78)
Net new non-advisory assets ^{1,2}	(1,900)	(1,561)
Total net new assets ¹	\$ (1,192)	(1,639)
Annualized advisory AUA growth ³	6.5 %	(0.8)%
Annualized AUA growth ³	(4.2)%	(6.3)%
Advisor headcount	1,130	1,581
Average trailing 12-month production per advisor ⁴ (in thousands)	\$ 314	232
Advisor associates	339	254

¹Net new assets is calculated by taking total client deposits and net transfers less client withdrawals.

²Excludes activity related to products held outside of our platform. These assets represent less than 10% of total AUA.

³Annualized growth is calculated by annualizing net new assets divided by beginning assets under administration.

⁴Production per advisor is calculated as trailing 12-month Total Underwriting and distributions fees less “other” underwriting and distribution fees divided by the average number of advisors. “Other” underwriting and distribution fees predominantly include fees paid by advisors for programs and services.

Results of Operations — Three and Six Months Ended June 30, 2018 as Compared with Three and Six Months Ended June 30, 2017

Total Revenues

Total revenues increased 3% to \$295.3 million for the three months ended June 30, 2018 compared to the three months ended June 30, 2017. For the six months ended June 30, 2018, total revenues increased \$19.7 million, or 3%, compared to the same period in the prior year.

	Three months ended June 30,		Variance
	2018	2017	
	(in thousands, except percentage data)		
Investment management fees	\$ 130,391	130,878	— %
Underwriting and distribution fees	137,873	128,776	7 %
Shareholder service fees	27,074	27,003	— %
Total revenues	<u>\$ 295,338</u>	<u>286,657</u>	3 %

	Six months ended June 30,		Variance
	2018	2017	
	(in thousands, except percentage data)		
Investment management fees	\$ 264,083	261,314	1 %
Underwriting and distribution fees	275,914	257,607	7 %
Shareholder service fees	52,956	54,300	(2)%
Total revenues	<u>\$ 592,953</u>	<u>573,221</u>	3 %

Investment Management Fee Revenues

Investment management fee revenues for the second quarter of 2018 decreased \$0.5 million, or less than 1%, from the second quarter of 2017. For the six month period ended June 30, 2018, investment management fee revenues increased \$2.8 million, or 1%, compared to the same period in 2017. In the fourth quarter of 2017, nine Advisors Funds merged into Ivy Funds with substantially similar objectives and strategies. The remaining 11 Advisor Funds merged into Ivy Funds on February 26, 2018. As a result of the mergers, the Company anticipates investment management fee revenue in 2018 will decrease between \$10 million and \$11 million annually from 2017.

The following table summarizes investment management fee revenues, related average assets under management, fee waivers and investment management fee rates for the three and six months ended June 30, 2018 and 2017.

	Three months ended June 30,		Variance
	2018	2017	
	(in thousands, except for management fee rate and average assets)		
Investment management fees (net)	\$ 124,766	124,686	— %
Average assets (in millions)	74,250	73,414	1 %
Management fee rate (net)	0.6740 %	0.6812 %	
Total fee waivers	\$ 3,135	2,622	20 %
Institutional investment management fees (net)	\$ 5,625	6,192	(9)%
Institutional average assets (in millions)	5,743	7,230	(21)%
Institutional management fee rate (net)	0.4099 %	0.3679 %	

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	Six months ended June 30,		Variance
	2018	2017	
	(in thousands, except for management fee rate and average assets)		
Investment management fees (net)	\$ 252,429	248,486	2 %
Average assets (in millions)	75,084	73,457	2 %
Management fee rate (net)	0.6780 %	0.6822 %	
Total fee waivers	\$ 5,446	4,189	30 %
Institutional investment management fees (net)	\$ 11,654	12,828	(9)%
Institutional average assets (in millions)	6,112	7,580	(19)%
Institutional management fee rate (net)	0.4048 %	0.3655 %	

Revenues from investment management services provided to our affiliated mutual funds, which are distributed through the unaffiliated and broker-dealer channels, increased slightly in the second quarter of 2018 compared to the second quarter of 2017. Fee waivers increased during the second quarter in 2018 compared to the second quarter of 2017 primarily due to the inclusion of common fund expenses that were previously not reimbursed. Fee waivers for the Funds are recorded as an offset to investment management fees up to the amount of fees earned. For the six months ended June 30, 2018, revenues from investment management services provided to our affiliated mutual funds increased \$3.9 million, compared to the first six months of 2017 due to an increase in average assets under management. Fee waivers increased during the six months ended June 30, 2018 compared to the same period in 2017 due to the Advisors Funds mergers and the inclusion of common fund expenses that were previously not reimbursed. Effective July 31, 2018, fund expenses for 10 of our funds across only specific share classes were reduced via specific fee waivers, which the Company anticipates will decrease investment management fees between \$17 million and \$19 million annually, assuming no correlated increase in assets.

Institutional account revenues in the second quarter of 2018 decreased \$0.6 million compared to the first quarter of 2017 due to a 21% decrease in average assets under management, partially offset by an increase in the average management fee rate. For the six month period ended June 30, 2018, institutional account revenues decreased \$1.2 million, compared to the same period in 2017 primarily due to a 19% decrease in average assets under management, partially offset by an increase in the average management fee rate.

	Annualized long-term redemption rates (excludes money market redemptions)			
	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	Unaffiliated channel	34.9 %	39.2 %	35.3 %
Institutional channel	115.4 %	58.7 %	74.5 %	47.5 %
Broker-Dealer channel	14.4 %	14.7 %	14.8 %	14.9 %
Total	29.8 %	27.9 %	27.2 %	29.2 %

The decreased long-term redemption rate for the six months ended June 30, 2018 in the unaffiliated channel was driven primarily by improved redemption rates in the Ivy Asset Strategy Fund and the Ivy VIP Asset Strategy Fund (the "Asset Strategy funds"). Redemptions in the Asset Strategy funds represented approximately 9% of the unaffiliated channel's redemptions during the second quarter of 2018, reduced from 24% in the second quarter of 2017. The increased long-term redemption rate for both comparative periods in the Institutional channel was due to client redemptions of \$1.3 billion from our Core Equity and Large Cap Growth strategies during the second quarter of 2018. Additionally, in July 2018, we were notified of \$367 million of redemptions in our Large Cap Growth strategy and \$114 million of redemptions in our Core Equity strategy in our Institutional channel. Prolonged redemptions in any of our distribution channels could negatively affect revenues in future periods.

Our overall current year-to-date annualized redemption rate of 27.2% is higher than the current year-to-date industry average of approximately 24.0%, based on data from the Investment Company Institute.

Underwriting and Distribution Fee Revenues

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

	For the three months ended June 30, 2018		
	Unaffiliated	Broker- Dealer	Total
	(in thousands)		
Underwriting and distribution fee revenues			
Fee-based asset allocation product revenues	\$ —	66,580	66,580
Rule 12b-1 service and distribution fees	20,051	18,109	38,160
Sales commissions on front-end load mutual fund and variable annuity products	507	13,823	14,330
Sales commissions on other products	—	9,065	9,065
Other revenues	148	9,590	9,738
Total	\$ 20,706	117,167	137,873

	For the three months ended June 30, 2017		
	Unaffiliated	Broker- Dealer	Total
	(in thousands)		
Underwriting and distribution fee revenues			
Fee-based asset allocation product revenues	\$ —	58,313	58,313
Rule 12b-1 service and distribution fees	22,852	18,863	41,715
Sales commissions on front-end load mutual fund and variable annuity products	319	14,529	14,848
Sales commissions on other products	—	8,460	8,460
Other revenues	353	5,087	5,440
Total	\$ 23,524	105,252	128,776

	For the six months ended June 30, 2018		
	Unaffiliated	Broker- Dealer	Total
	(in thousands)		
Underwriting and distribution fee revenues			
Fee-based asset allocation product revenues	\$ —	132,097	132,097
Rule 12b-1 service and distribution fees	41,027	36,486	77,513
Sales commissions on front-end load mutual fund and variable annuity products	977	28,249	29,226
Sales commissions on other products	—	17,487	17,487
Other revenues	333	19,258	19,591
Total	\$ 42,337	233,577	275,914

	For the six months ended June 30, 2017		
	Unaffiliated	Broker- Dealer	Total
	(in thousands)		
Underwriting and distribution fee revenues			
Fee-based asset allocation product revenues	\$ —	115,069	115,069
Rule 12b-1 service and distribution fees	46,869	37,518	84,387
Sales commissions on front-end load mutual fund and variable annuity products	765	28,855	29,620
Sales commissions on other products		15,697	15,697
Other revenues	779	12,055	12,834
Total	<u>\$ 48,413</u>	<u>209,194</u>	<u>257,607</u>

Underwriting and distribution revenues earned in the second quarter of 2018 increased by \$9.1 million, or 7%, compared to the second quarter of 2017, primarily driven by an increase in fee-based asset allocation product revenues of \$8.3 million, partially offset by a decrease in Rule 12b-1 asset-based service and distribution fees across both channels. Fee-based asset allocation product revenues increased primarily due to an increase in fee-based asset allocation assets of \$3.3 billion, or 17%, while Rule 12b-1 asset-based service and distribution fees decreased due to a decrease in average mutual fund assets under management for which we earn Rule 12b-1 revenues. Additionally, other revenues increased \$4.5 million in the second quarter of 2018 compared to the second quarter of 2017 primarily due to an increase in payments received from independent financial advisors for services.

For the six months ended June 30, 2018, underwriting and distribution revenues increased by \$18.3 million, or 7%, compared to the six months ended June 30, 2017, primarily driven by an increase in fee-based asset allocation product revenues of \$17.0 million, partially offset by a decrease in Rule 12b-1 asset-based service and distribution fees across both channels. Fee-based asset allocation product revenues increased primarily due to an increase in fee-based asset allocation assets of \$3.3 billion, or 17%, while Rule 12b-1 asset-based service and distribution fees decreased due to a decrease in average mutual fund assets under management for which we earn Rule 12b-1 revenues. Additionally, other revenues increased \$7.2 million in the six months ended June 30, 2018 compared to the same period in 2017 primarily due to an increase in payments received from independent financial advisors for services.

Shareholder Service Fee Revenue

During the second quarter of 2018, shareholder service fee revenue slightly increased compared to the second quarter of 2017. Custodian fees increased \$1.1 million, or 74%, primarily due to a change in the fee schedule that now includes advisory accounts. Offsetting this increase, fund service fees decreased \$1.0 million, or 14% primarily due to decrease in the number of accounts as a result of the share class conversion in the second quarter of 2017.

During the six months ended June 30, 2018, shareholder service fee revenue decreased \$1.3 million, or 2%, compared to the six months ended June 30, 2017. Fund service fees decreased \$2.8 million, or 16%, primarily due to a decrease in the number of accounts, as a result of the share class conversion. Partially offsetting the decrease, custodian fees increased \$0.9 million, or 28%, primarily due to a change in custodian fees that now includes advisory accounts.

Total Operating Expenses

Operating expenses increased \$1.5 million, or 1%, in the second quarter of 2018 compared to the second quarter of 2017, primarily due to increased distribution expenses, partially offset by a decrease in general and administrative costs. For the six months ended June 30, 2018, operating expenses increased \$5.7 million, or 1%, compared to the first six months of 2017, primarily due to increased distribution and subadvisory expenses, partially offset by decreases in general and administrative costs and occupancy costs.

	Three months ended		Variance
	June 30,		
	2018	2017	
	(in thousands)		
Distribution	\$ 114,315	109,060	5 %
Compensation and benefits	65,828	65,332	1 %
General and administrative	19,143	23,287	(18)%
Technology	17,235	17,780	(3)%
Occupancy	6,969	7,548	(8)%
Marketing and advertising	2,896	3,264	(11)%
Depreciation	5,819	5,175	12 %
Subadvisory fees	3,683	3,194	15 %
Intangible asset impairment	1,200	900	33 %
Total operating expenses	<u>\$ 237,088</u>	<u>235,540</u>	1 %

	Six months ended		Variance
	June 30,		
	2018	2017	
	(in thousands)		
Distribution	\$228,785	217,497	5 %
Compensation and benefits	134,613	132,367	2 %
General and administrative	38,681	45,482	(15)%
Technology	33,879	34,757	(3)%
Occupancy	13,933	15,333	(9)%
Marketing and advertising	5,177	5,875	(12)%
Depreciation	11,121	10,396	7 %
Subadvisory fees	7,391	5,891	25 %
Intangible asset impairment	1,200	1,500	(20)%
Total operating expenses	<u>\$474,780</u>	<u>469,098</u>	1 %

Distribution expenses for the second quarter of 2018 increased by \$5.3 million, or 5%, compared to the second quarter of 2017. Expenses in the broker-dealer channel increased \$9.6 million, or 13%, primarily due to higher commissions paid to independent financial advisors under the new commission structure that became effective on January 1, 2018 and higher commissions on our asset-based advisory products due to advisory asset growth. Distribution expenses in the unaffiliated channel decreased by \$4.3 million due to a decrease in average mutual fund assets under management for which we pay Rule 12b-1 commissions to third party distributors.

For the six months ended June 30, 2018, distribution expenses increased by \$11.3 million, or 5%, compared to the first six months of 2017. Expenses in the broker-dealer channel increased \$19.2 million, or 13%, primarily due to higher commissions paid to independent financial advisors under the new commission structure that became effective on January 1, 2018 and higher commissions on our asset-based advisory products due to advisory asset growth. Distribution expenses in the unaffiliated channel decreased by \$7.9 million due to a decrease in average mutual fund assets under management for which we pay Rule 12b-1 commissions to third party distributors.

Compensation and benefits during the second quarter of 2018 increased \$0.5 million, or 1%, compared to the second quarter of 2017. The increase is primarily due to a combined \$3.2 million increase in base compensation from normal merit increases, severance, and the change in field leader compensation structure, resulting in a reclass from distribution expense to compensation. Partially offsetting these increases was a \$2.7 million decrease in pension expense as a result of the Pension Plan freeze as of September 30, 2017.

For the six months ended June 30, 2018, compensation and benefits increased \$2.2 million, or 2%, compared to the six months ended June 30, 2017. The increase is primarily due to a combined \$7.5 million increase in base compensation from normal merit increases, severance, and the change in field leader compensation structure, resulting in a reclass from distribution expense to compensation. Partially offsetting these increases was a \$5.4 million decrease in pension expense as a result of the Pension Plan freeze.

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General and administrative expenses in the second quarter of 2018 decreased \$4.1 million, compared to the second quarter of 2017. The decrease was mainly due to a decrease in legal, audit and consulting costs due to the completion of certain projects, a decrease in temporary staff expense and a decrease in fund expenses due to fund launches and fund mergers in the second quarter of 2017. For the six months ended June 30, 2018, general and administrative expenses decreased \$6.8 million, compared to the same period in 2017. The decrease was mainly due to a decrease in legal, audit and consulting costs due to the completion of certain projects, a decrease in temporary staff expense and a decrease in fund expenses due to fund launches and fund mergers in 2017.

Occupancy costs decreased \$0.6 million in the second quarter of 2018 compared to the second quarter of 2017 and decreased \$1.4 million in the six months ended June 30, 2018 compared to the same period in 2017. For both comparative periods, occupancy costs decreased primarily due to lower office space rent as a result of fewer field office leased locations as we continue to implement a new broker-dealer market structure.

Subadvisory fees are paid to other asset managers for providing advisory services for certain mutual fund portfolios. These expenses reduce our operating margin since we pay out approximately half of our management fee revenues received from subadvised products.

Subadvisory expenses increased \$0.5 million in the second quarter of 2018 compared to the second quarter due to an increase in subadvised average assets of 12%. Quarterly subadvised average assets under management at June 30, 2018 were \$5.7 billion compared to \$5.1 billion at June 30, 2017. Subadvisory expenses increased \$1.5 million for the six months ended June 30, 2018 compared to the same period in 2017, due to an increase in subadvised average assets of 68%. Year-to-date subadvised average assets under management at June 30, 2018 were \$5.7 billion compared to \$3.4 billion at June 30, 2017. The increase in subadvised average assets for both comparative periods is primarily due to the launch of Ivy Proshares in April of 2017 and the introduction of the Wilshire Global Allocation Fund in May of 2017.

Investment and Other Income (Loss)

Investment and other income was \$0.8 million for the three months ended June 30, 2018 compared to \$3.0 million for the same period in 2017. In the second quarter of 2018, we recognized \$3.8 million in dividend, capital gain distributions and interest income. The second quarter of 2018 also included \$3.7 million of net losses related to our seed capital investments and associated hedges and \$0.6 million in mark-to-market pension gains. During the second quarter of 2017, we recognized \$1.6 million in dividend and interest income. The second quarter of 2017 also included \$1.2 million of net losses related to our seed capital investments and associated hedges and \$1.0 million in mark-to-market pension gains. The second quarter of 2017 also included \$1.3 million of gains attributable to noncontrolling interests in sponsored funds for the period in which the Company held majority ownership.

Investment and other income was \$3.7 million for the six months ended June 30, 2018 compared to \$6.0 million for the same period in 2017. For the six months ended June 30, 2018, we recognized \$7.5 million in dividend, capital gain distributions and interest income. The first six months of 2018 also included \$5.5 million of net losses related to our seed capital investments and associated hedges and \$1.1 million in mark-to-market pension gains. During the six months ended June 30, 2017, we recognized \$2.6 million in dividend and interest income. The first six months of 2017 also included \$1.2 million of net losses related to our seed capital investments and associated hedges and \$1.9 million in mark-to-market pension gains. The six months ended June 30, 2017 also included \$2.3 million of gains attributable to noncontrolling interests in sponsored funds for the period in which the Company held majority ownership.

Interest Expense

Interest expense was \$1.6 million and \$2.8 million in the second quarter of 2018 and 2017, respectively. Interest expense was \$3.4 million and \$5.6 million for the six months ended June 30, 2018, and June 30, 2017, respectively. The majority of our interest expense is fixed based on our senior unsecured notes. The \$95.0 million Series A, senior unsecured notes that matured on January 13, 2018 were repaid. As a result, interest expense declined in both comparative periods, and we anticipate \$4.8 million in annualized interest expense savings.

Taxes

The following table reconciles the statutory federal income tax rate with our effective income tax rate from continuing operations for the three and six months ended June 30, 2018 and 2017.

	Three months ended		Six months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Statutory federal income tax rate	21.0 %	35.0 %	21.0 %	35.0 %
State income taxes, net of federal tax benefits	2.9	2.2	2.9	2.2
Share-based compensation	8.1	17.3	3.6	7.9
Valuation allowance on losses capital in nature	—	(3.2)	—	(2.1)
Deferred inventory adjustment	2.2	—	1.1	—
Federal and state tax incentives	(2.0)	(0.3)	(1.0)	(0.2)
Uncertain tax positions	(9.7)	0.8	(4.6)	0.5
Other items	0.6	—	0.8	0.2
Effective income tax rate	<u>23.1 %</u>	<u>51.8 %</u>	<u>23.8 %</u>	<u>43.5 %</u>

Our effective income tax rate was 23.1% for the three months ended June 30, 2018, as compared to 51.8% for the same period in 2017, a decrease of 28.7%. The effective tax rate in 2018 was lower primarily due to the federal statutory tax rate decrease from 35% to 21% effective January 1, 2018. The tax impact of share-based compensation created a tax shortfall in both years, but the impact was greater in 2017 mostly due to a larger differential between grant date and vest date prices on restricted stock awards at vesting, which decreased the rate 9.2%. The Company finalized a voluntary disclosure agreement with a state tax jurisdiction during the second quarter of 2018 and recognized tax benefits on the reversal of previously recorded uncertain tax expense, which decreased the rate 11.1%. These decreases were partially offset by a 3.2% increase caused by the release of a valuation allowance on capital loss carryforwards in 2017, for which no balance existed as of December 31, 2017. Our effective income tax rate was 23.8% and 43.5% for the six months ended June 30, 2018 and 2017, respectively, a decrease of 19.7%. The main drivers for the decreased rate in the six month comparison period are the same as those that impacted the rate in the three month periods.

The Company expects continued volatility in its effective tax rate in future periods as the tax effects of share-based compensation will be impacted by market fluctuations in our stock price. Based on current estimates, the Company expects a tax shortfall from share-based payments of \$2.0 - \$2.5 million in 2019, primarily in the second quarter. The Company expects its future effective tax rate, exclusive of the effects of share-based payments, federal and state tax incentives, unanticipated state tax legislative changes, and unanticipated fluctuations in earnings to range from 23% to 25%.

Liquidity and Capital Resources

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

- Repurchase our stock
- Pay dividends
- Finance internal growth

As part of our regular assessment of the return of capital to stockholders, we implemented a revised capital return policy in the fourth quarter of 2017 that is designed to provide greater financial flexibility to invest in our business, support ongoing operations and maintain a strong balance sheet, while continuing to provide a very competitive return to stockholders. The components of the capital return policy are described below.

Repurchase Our Stock

We repurchased 3,094,934 shares and 714,354 shares of our Class A common stock in the open market or privately during the six months ended June 30, 2018 and 2017, respectively, resulting in cash outflows of \$59.2 million and \$12.0 million, respectively.

In connection with the implementation of our new capital return policy, we intend to repurchase \$250 million of our Class A common stock through late 2019, which is inclusive of buybacks to offset dilution of our equity grants. We expect to engage in an opportunistic share repurchase plan to fulfill the targeted buybacks. We have repurchased \$81 million of our Class A common stock since the announcement of this program in the fourth quarter of 2017.

Pay Dividends

We paid quarterly dividends on our Class A common stock that resulted in financing cash outflows of \$41.5 million and \$77.2 million for the first six months of 2018 and 2017, respectively.

The Board of Directors approved a dividend on our Class A common stock of \$0.25 per share that was paid on August 1, 2018 to stockholders of record on July 11, 2018.

Finance Internal Growth

We continue to invest in our broker-dealer by offering home office resources, wholesaling efforts and enhanced technology tools, including the modernization of our brokerage and product platform. We use cash to fund growth in our distribution channels. Our unaffiliated channel requires cash outlays for wholesaler commissions and commissions to third parties on deferred load product sales. We also provide seed money for new products to further enhance our product offerings and distribution efforts.

Operating Cash Flows

Cash from operations increased \$203.2 million for the six months ended June 30, 2018 compared to the six months ended June 30, 2017. The increase is primarily due to an increase in investment activity of \$201.6 million and increased net income of \$31.2 million, partly offset by changes in operating receivables and payables.

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 resulted 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.

Investing Cash Flows

Cash from investing activities increased \$67.4 million for the six months ended June 30, 2018 compared to the six months ended June 30, 2017 primarily due to the maturities of \$78.0 million in investment securities classified as available for sale.

Financing Cash Flows

The repayment of our \$95.0 million Series A senior unsecured notes in January of 2018, stock repurchases of \$59.2 million and dividends of \$41.5 million accounted for the majority of our financing cash outflows in the first six months of 2018. Dividends of \$77.2 million and stock repurchases of \$12.0 million accounted for the majority of our financing cash outflows in the first six months of 2017. Future financing cash outflows will be affected by the new capital return policy.

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 during 2018. Expected short term uses of cash include dividend payments, repurchases of our Class A common stock, interest on indebtedness, income tax payments, seed money

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for new products, capital expenditures, and collateral funding for margin accounts established to support derivative positions, and could include strategic acquisitions.

Expected long term capital requirements include interest on indebtedness and maturities of outstanding debt, 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, strategic acquisitions, payment of dividends, income tax payments, seed money for new products, and repurchases of our Class A common stock.

Critical Accounting Policies and Estimates

There have been no material changes in the critical accounting policies and estimates disclosed in the “Critical Accounting Policies and Estimates” section of our 2017 Form 10-K, except for the removal of the Pension and Other Postretirement Benefits critical accounting policy due to an amendment to freeze the Pension Plan effective September 30, 2017, which reduced the complexity of the accounting for the Pension Plan in 2018 and future years.

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 since December 31, 2017. As further described in Note 5 to the unaudited consolidated financial statements, the Company has an economic hedge program that uses total return swap contracts to hedge market risk related to its investments in sponsored funds.

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, 2018, have concluded that the Company’s disclosure controls and procedures were effective as of June 30, 2018.

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, 2018 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.

Part II. Other Information

Item 1. Legal Proceedings

See Part I, Item 1, Notes to the Unaudited Consolidated Financial Statements, Note 11 – Contingencies, of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

Except as noted below, there have been no material changes to the Company’s Risk Factors during the second quarter of 2018 from those previously reported in the Company’s 2017 Form 10-K.

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In March 2018, the U.S. Court of Appeals for the Fifth Circuit vacated the DOL Fiduciary Rule. Although the DOL Fiduciary Rule has been vacated, other regulators have enacted or proposed other fiduciary standards that could require modifications to our distribution activities and may impact our ability to service clients or engage in certain types of distribution or other business activities.

In April 2018, the SEC proposed its own fiduciary rule that would impose a new standard of care on broker-dealers when making recommendations to both retirement and non-retirement accounts. In addition, various states have also implemented or proposed new fiduciary requirements.

Specific references in the Risk Factors reported in the Company's 2017 Form 10-K regarding the impact the DOL Fiduciary Rule may have on the Company should be read to refer generally to "new fiduciary standards", which would include any fiduciary standards imposed by the DOL, the SEC or any states.

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 2018.

<u>Period</u>	<u>Total Number of Shares Purchased (1)</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Program</u>	<u>Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under The Program</u>
April 1 - April 30	498,317	\$ 19.62	—	n/a (1)
May 1 - May 31	914,000	18.78	914,000	n/a (1)
June 1 - June 30	686,308	19.23	676,000	n/a (1)
Total	<u>2,098,625</u>	<u>\$ 19.25</u>	<u>1,590,000</u>	

- (1) On August 31, 1998, we announced that our Board of Directors approved a program to repurchase shares of our Class A 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 Class A common stock or (ii) \$50 million of our Class A common stock. We may repurchase our Class A common stock in privately negotiated transactions or 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 2018, 508,625 shares were purchased in connection with funding employee income tax withholding obligations arising from the vesting of restricted shares.

In connection with the implementation of our new capital return policy, we intend to repurchase \$250 million of our Class A common stock through late 2019, which is inclusive of buybacks to offset dilution of our equity grants. We intend to engage in an opportunistic share repurchase plan to fulfill the targeted buybacks.

Item 6. Exhibits

- 10.1* [Severance Agreement and Release of All Claims, dated April 18, 2018, by and between Wendy J. Hills and W&R Corporate LLC.](#)
- 10.2 [Waddell & Reed Financial, Inc. 1998 Stock 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 14, 2016 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 June 30, 2018, 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

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 3rd day of August 2018.

WADDELL & REED FINANCIAL, INC.

By: /s/ Philip J. Sanders _____
Chief Executive Officer, Chief Investment
Officer and Director
(Principal Executive Officer)

By: /s/ Benjamin R. Clouse _____
Senior Vice President and Chief Financial
Officer
(Principal Financial Officer and Principal
Accounting Officer)

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Section 2: EX-10.1 (EX-10.1)

Exhibit 10.1

SEPARATION AGREEMENT AND RELEASE OF ALL CLAIMS

This Separation Agreement and Release of All Claims (“Agreement”) is made by and between W&R Corporate LLC (“W&R” or “Company”) and Wendy J. Hills (“Employee”) (collectively, the “Parties”).

WHEREAS, the Parties to this Agreement recognize that W&R and/or various of the Company Affiliates referenced herein, have employed Employee as their Chief Legal Officer, Executive Vice President, General Counsel and Secretary; that Employee and W&R mutually wish to end Employee’s employment relationship with W&R and all other associations with W&R and any Company Affiliates in an amicable and cooperative manner; that Employee agreed to enter into this Agreement in exchange for the consideration detailed herein; that W&R has agreed to enter into this Agreement in exchange for certain releases and other considerations as detailed herein; and that without any admission as to fault, liability, or wrongdoing or as to the validity of the other party’s positions, the Parties to this Agreement desire to forever resolve and compromise any and all Claims, as defined herein, that Employee has, or may have, against Company, Waddell & Reed Financial, Inc., and each of those entities’ parents, subsidiaries, affiliates, and affiliated mutual funds, as well as all of those entities’ current or former insurers, directors, officers, fiduciaries, employees (in their representative and/or individual capacities), agents, successors, assigns, employee benefit plans, related corporations, and any and all other entities affiliated with or related to them (collectively, “Company Affiliates”).

NOW, THEREFORE, in consideration of the promises, agreements, and releases in this Agreement, Employee and W&R agree to resolve all issues and controversies that exist between them, including any future effects of the alleged acts, omissions, and events, as follows:

1. In connection with Employee’s separation from service and in exchange for the consideration provided by Employee under this Agreement, including her execution thereof, W&R agrees as follows, subject to other terms of this Agreement, including, but not limited to, this Agreement becoming effective as provided below:

- (a) Employee’s employment shall end effective April 17, 2018 (the “Separation Date”).
- (b) Employer shall pay Employee an initial separation payment in the amount of \$300,000, less applicable deductions and withholdings (“Initial Separation Pay”). The Initial Separation Pay will be made in a single lump sum payment, by direct deposit in accordance with existing bank instructions on file with the Company, within thirty (30) days of the Effective Date of this Agreement, as defined herein.
- (c) Company will also make available for Employee outplacement services commensurate with Employee’s position responsibilities as of the Separation Date through a provider of Company’s choice, which may be initiated by Employee following the Effective Date of this Agreement through contacting the Company’s

Human Resources Department. The service must commence within 90 days of the Effective Date of this Agreement and run continuously

from the date Employee first contacts the Company's Human Resources Department to initiate such services.

2. In exchange for Employee executing and complying with both this Agreement and the release attached hereto as Exhibit A (the "ADEA Release"), and for not timely revoking the ADEA Release in accordance with its terms:

- (a) Employer shall pay Employee a second separation payment in the amount of \$300,000, less applicable deductions and withholdings ("Supplemental Separation Pay"). Employee shall receive the Supplemental Separation Pay, by direct deposit in accordance with existing bank instructions on file with the Company within thirty (30) days of the ADEA Release Effective Date, as defined in the ADEA Release. Neither the Initial Separation Pay nor the Supplemental Separation Pay is eligible compensation under the Waddell & Reed Financial, Inc. 401(k) and Thrift Plan or under the Waddell & Reed Financial, Inc. Retirement Income Plan.
- (b) Upon approval by the Waddell & Reed Financial, Inc. Compensation Committee, 86,950 unvested shares of restricted stock awarded to Employee pursuant to provisions of the Waddell & Reed Financial, Inc. Restricted Stock Award Agreements Employee entered into with Waddell & Reed Financial, Inc. under the Waddell & Reed Financial, Inc. 1998 Stock Incentive Plan, as amended and restated, shall be vested and all transfer restrictions thereon shall lapse upon the first business day following the ADEA Release Effective Date, as defined in the ADEA Release (the "Restricted Stock Award Vesting"). Compensation associated with this vesting shall be treated as ordinary income, subject to applicable deductions and withholdings, and is not eligible compensation under the Waddell & Reed Financial, Inc. 401(k) and Thrift Plan or under the Waddell & Reed Financial, Inc. Retirement Income Plan.
- (c) Employee's ability to receive and/or participate in any Company or Company Affiliates provided compensation plan or benefit plan ceases as of the Separation Date or alternatively, where a plan exists, is subject to the terms and conditions in each Plan as summarized and described in the Summary of Benefits, attached hereto as Exhibit B and incorporated by reference. The Summary of Benefits, attached hereto as Exhibit B, is for summary purposes only.

3. In connection with Employee's separation of employment and in exchange for the consideration provided by Company under this Agreement, Employee agrees as follows:

- (a) The payments and benefits provided by Company under this Agreement are adequate consideration for Employee's entering into this Agreement and are in excess of anything to which Employee is legally entitled.
- (b) Upon the Effective Date of this Agreement, as defined herein, to the maximum extent permitted by law, and except as otherwise provided for within this

Agreement, Employee, as of the Effective Date, on behalf of herself and all of her heirs, family members, beneficiaries, affiliates, administrators, successors, assigns, and executors (collectively, the "Releasers") RELEASES AND FOREVER DISCHARGES Company, each and all of the Company Affiliates, and each and all other parties mentioned or referenced in the WHEREAS clause of this Agreement (collectively, all of the foregoing, the "Released Parties"), from any and all causes of action, claims, actions, rights, judgments, obligations, damages, demands, accountings, or liabilities of any kind or nature (collectively, "Claims"), whether known or unknown, suspected or unsuspected, that Employee or any of the other Releasers now holds or owns or has at any time held or owned against any of the Released Parties, through the Effective Date of this Agreement to the maximum extent permitted by contract or law. Employee acknowledges and agrees that the Claims released under this Agreement include any and all Claims Employee or any of the other Releasers now holds or owns or has at any time held or owned against the Released Parties related to any and all contract or other Claims arising from or related to any employment-related or other association agreements entered into by Employee and any of the Released Parties, to the maximum extent permitted by law. Employee, on behalf of herself and all of the other Releasers, further acknowledges and agrees that this release of Claims specifically includes, but is not limited to, any and all contract claims; wage and hour claims, including, but not limited to, those arising under the Equal Pay Act and similar state laws; any and all claims for race, sex, national origin, religious, disability, or age discrimination, harassment, and/or retaliation under Title VII of the Civil Rights Act of 1964 (as amended), the Civil Rights Act of 1991, 42 U.S.C. §1981, the Americans with Disabilities Act (as amended), the Rehabilitation Act, the Genetic Information Nondiscrimination Act, the Kansas Act Against Discrimination, the Kansas Age Discrimination in Employment Act, the Kansas Wage Payment Act, the Kansas Minimum Wage and Maximum Hours Law, the Kansas Constitution, any and all applicable Missouri state civil rights, wage and hour, and employment laws (including but not limited to Missouri Human Rights Act, Mo. Rev. Stat. § 213.010 et seq., Missouri Equal Pay Act, Mo. Rev. Stat. § 290.400 et seq., Missouri Wage Payment Act, Mo. Rev. Stat. § 290.010 et seq., Missouri Merchandising Practices Act, Mo. Rev. Stat. § 407.913 et seq.), any unlawful employment practices and anti-discrimination and anti-harassment laws, and any and all other statutes, regulations, and/or ordinances that address equal employment opportunity; any and all other statutory claims, including but not limited to claims under the Family Medical Leave Act, the Occupational Safety and Health Act, the Employment Retirement Income Security Act (as amended) ("ERISA"), the National Labor Relations Act, the Consolidated Omnibus Budget Reconciliation Act ("COBRA"), 42 U.S.C. § 1983, 42 U.S.C. § 1988, the Sarbanes-Oxley Act of 2002, the Internal Revenue Code of 1986; any and all common law claims; any and all whistleblowing claims; any and all tort claims, including but not limited to any and all claims for tortious interference with business expectancy, outrage, negligent infliction of emotional distress, defamation, retaliation,

and/or wrongful discharge in violation of public policy; any and all public policy claims; any and all claims under any federal and/or state Constitution, any and all claims under any federal, state and/or local common law, and any and all claims under any Company and/or Company Affiliates policy or practice, including but not limited to any claims regarding any bonus, health, stock incentive, retirement, and/or benefit plans of Company and/or Company Affiliates.

- (c) The foregoing Release does not include any claims under the Age Discrimination in Employment Act of 1967 (“ADEA”), 29 U.S.C. §621 et seq., or any claims that cannot be released or waived by law, nor does it preclude Employee from filing a charge or complaint with, or participating in an investigation or proceeding conducted by, any Government Agencies, as defined herein; provided, however, that Employee and the other Releasors are releasing and waiving the right to seek or accept any compensatory damages, back pay, front pay, or reinstatement remedies for Employee or the other Releasors personally with respect to any and all Claims released in this Agreement; and further provided that nothing herein shall restrict Employee’s right to receive an award for information provided to the U.S. Securities and Exchange Commission pursuant to Section 21F of the Securities Exchange Act of 1934, as amended.
- (d) Between April 12, 2018 and April 17, 2018 (referred to herein as the “Transition Period”), solely as requested by Waddell & Reed Financial, Inc.’s Chief Executive Officer, Employee shall assist in the transition of duties Employee performs and the transfer of knowledge Employee holds regarding Company and Company Affiliates business. Employee agrees that, at all times during the Transition Period, Employee shall act in the best interests of Company and Company Affiliates and comply with applicable Company and/or Company Affiliates policies. Employee understands and agrees that Employee’s failure to cooperate fully and reasonably with all requested transition activities during the Transition Period and/or any material failure to act as required herein shall operate as a revocation of the offer of compensation and benefits set forth in Paragraphs 1–3 of this Agreement.
- (e) Upon reasonable request by the Company, Employee will cooperate with Company upon request with regard to any matter involving Company, any matter involving any of the Company Affiliates, or any other matter that arose during Employee’s employment or other association, including but not limited to, participating in the investigation, prosecution, or defense of any matter, and truthfully answering questions regarding matters within Employee’s knowledge, provided Company shall reimburse Employee for any reasonable travel and out-of-pocket expenses incurred in providing such participation at its request, the purpose of which reimbursement is to avoid cost to Employee and not to influence Employee’s testimony. Company’s request for reasonable cooperation shall take into consideration (i) Employee’s personal and business

commitments, and (ii) the amount of notice provided to Employee by Company.

- (f) Employee expressly agrees that, effective as of the Separation Date, Employee has ceased providing services to Company and any Company Affiliates, and, except for Employee's salary through the Separation Date and as otherwise explicitly provided for herein, Employee is not entitled to receive any compensation or benefit from Company or Company Affiliates. Employee expressly agrees that, except as otherwise provided in this Agreement and any relevant Exhibit(s) hereto (which are incorporated by reference herein), no additional payments or other consideration are appropriate or due to Employee for any reason, and that Employee has received all compensation and leave due and owing to Employee relating to any employment or other relationship with Company, or any express or implied contract, including without limitation, all wages, commissions, bonuses, incentive pay, retention bonus, sick pay and vacation pay, and any form of leave from Company and/or any Company Affiliates. Nothing in this Agreement shall interfere with Employee's ability to receive the Class A common stock dividend payable on shares of unvested restricted stock on May 1, 2018 to all shareholders of record as of April 10, 2018.
- (g) Employee received this Agreement and all Exhibits hereto on or about April 12, 2018. Employee acknowledges that Company advised/hereby advises Employee that she has at least twenty-one (21) days from the date Employee received this Agreement and the Exhibit (s) hereto to consider the terms of the Agreement (including all Exhibits). However, in no event may Employee sign this Agreement before the first calendar day following the Separation Date or after May 3, 2018. Employee agrees that this is a reasonable period of time to consider whether to enter into this Agreement, and that Employee has had adequate opportunity to consider the terms of the Agreement and consider whether to enter into the Agreement. Employee should return the signed Agreement to Company, ATTN: Chief Human Resources Officer, 6300 Lamar Avenue, Overland Park, Kansas 66202. Employee further acknowledges that Employee has requested and received from Company any information that Employee believes is needed to make a knowing and voluntary release of all claims. If Employee fails to execute this Agreement after the Separation Date and on or before May 3, 2018, then this Agreement and offers made in it are revoked.
- (h) Company advised/hereby advises Employee to consult with independent legal counsel before executing this Agreement, including but not limited to the RELEASE AND WAIVER OF CLAIMS in Paragraphs 3(b) – 3(c).
- (i) As of the Effective Date of this Agreement, as defined herein, and except as provided for in Paragraph 4, or otherwise in this Agreement, Employee agrees she (1) has not suffered a work-related injury not properly disclosed to Company; (2) has not knowingly exercised any actual or apparent authority by

or on behalf of Company and/or any Company Affiliates that Employee has not specifically disclosed to Company except in the course and scope of Employee's proper duties; (3) has not knowingly entered into any agreements, whether written or otherwise, with any of Company or Company Affiliates' employees (current and former) and/or third parties that could legally bind Company or any Company Affiliates (except in accordance with her authorized role and responsibilities while at the Company); and (4) subject to the rights outlined in Paragraph 4, below, has no actual knowledge of any Company or Company Affiliates' noncompliance with regulatory, or other legal obligation, including by any Company or Company Affiliates' personnel, that has not already been reported and was within the scope of her job duties.

- (j) Employee acknowledges that, as a result of Employee's employment relationship and other associations with Company and/or Company Affiliates, Employee acquired or may acquire Confidential Information, as defined herein, of a special and unique nature and value relating to Company and/or Company Affiliates' matters. Except as otherwise provided for within this Agreement, Employee will not remove from Company or directly or indirectly communicate, divulge, or use, for any purpose, whether for Employee's benefit, for the benefit of any third party, or otherwise, any confidential or proprietary information concerning Company business and/or Company Affiliates' business known to or obtained by Employee in any capacity or role, including, but not limited to, Company and Company Affiliates' operations, sales product processes, services, materials, policies, and the manner in which they are developed, marketed, and/or provided, marketing and value added materials, fee sharing arrangements and the nature of Company and/or Company Affiliates' economic relationships with other firms or financial intermediaries, Company or Company Affiliates' compensation schedules, information regarding Company or Company Affiliates' personnel matters, policies and procedures, non-public Company business and/or financial information, information related to any internal investigation or auditing process, employee, contractor or associated persons lists, account lists, client lists, client account and contact information, proprietary products, proprietary commission information, proprietary supervisory information, Company or Company Affiliates' research, agreements, systems, procedures, manuals, passwords, passcodes or similar mechanisms for gaining access to any computer, computer system, computer network, computer data, or any other electronic data storage device or any data contained therein, proprietary information, technology information, information regarding the nature of Company and Company Affiliates' information technology systems and location of proprietary electronic data, strategic plans of Company and any Company Affiliates, software licenses granted to Company or Company Affiliates, authorization keys provided to Company or Company Affiliates, identity of W&R personnel, attorney-client privileged information, attorney work product-privileged information, attorney-client confidences, and any and all such other information regarded as trade secrets and/or confidential and/or proprietary information by Company, by Company Affiliates, and/or under any

applicable law, regulation, rule, and/or ethical guideline (collectively, “Confidential Information”).

- (k) To the extent Employee is compelled to disclose any Confidential Information, as defined herein, by a court of competent jurisdiction, then Employee agrees to give Company’s Chief Human Resources Officer as much notice as is reasonably practicable before such disclosure in the event Company wishes to intervene to protect its rights under this Agreement.
- (l) Employee agrees as follows:
 - (1) Company and Company Affiliates’ relationships with their employees, contractors and business associates are among W&R’s most important assets.
 - (2) For a period of one year from April 17, 2018 (the “Restricted Period”), Employee will not, as examined from an objective viewpoint, directly or indirectly, whether for Employee’s benefit or for the benefit of a third party, (1) participate in the solicitation, recruitment, hiring or contracting as an employee or engaging as an independent contractor any employee, contractor, sales assistant or agent of Company and/or any Company Affiliates, or (2) induce or attempt to induce any such persons to terminate, or in any way interfere with, the contractual or other relationship between Company and/or any Company Affiliates and any such persons.
 - (3) For a period of one year from April 17, 2018, Employee will take no action to knowingly interfere with Company and/or Company Affiliates’ operation of business or management of personnel.
 - (4) Employee represents and agrees that, as of the date of her signature on this Agreement, she has not engaged in any conduct that would violate Paragraphs 3(l)(1) – (3).
- (m) Employee will not at any time use Confidential Information for any purpose whatsoever. In addition, Employee acknowledges that, as former General Counsel for Company, Employee owes ongoing fiduciary duties to Company and/or Company affiliates, including but not limited to, her ongoing ethical obligations, including without limitation those relating to the attorney-client privilege, work product doctrine, client confidences, and conflicts of interest. Employee acknowledges and agrees that she will not, and is not authorized to, waive any attorney-client or other applicable privilege on behalf of Company and/or any Company Affiliates.
- (n) Except as otherwise provided in this Agreement, Employee agrees not in any way to disparage, denigrate, defame, or speak negatively of the Company, any Company Affiliates (as defined herein and specifically including Company and Company Affiliate employees and agents in their representative and individual

capacities), or any Released Parties, and agrees not to make or solicit any comments, statements, or the like to the media or to others, including claims against the entities, their agents, or representatives that may be considered derogatory, defamatory, or detrimental to the good name or reputation of the above-mentioned parties. Likewise, Company agrees that it shall direct in writing C-Suite officers of Waddell & Reed Financial, Inc. as of the Effective Date of this Agreement, and the employees who are the Company's appointed media and investment relations contacts as of the Effective Date of this Agreement, that while they are employed or affiliated with Company and while they are acting in an official capacity on behalf of Company or Company Affiliates, they should not (i) disparage, denigrate, defame, or speak negatively of Employee in any way, or (ii) make or solicit any comments, statements, or like to the media or to others, that may be considered derogatory, defamatory, or detrimental to Employee's good name or reputation.

- (o) Employee agrees following April 12, 2018, Employee will no longer be authorized to access any of Company or Company Affiliates' offices, facilities, or systems, including but not limited to Company or Company Affiliates' computers, systems, email systems, applications, servers, workstations, operating systems, databases, accounting systems, network infrastructure, software, programs, and any documentation, data or property contained within or in connection with any network infrastructure or systems listed herein. Employee agrees that any unauthorized attempt to access or any actual access of the network infrastructure, systems or data described herein following the Employee's separation of service would be damaging to Company and/or Company Affiliates.
- (p) Employee agrees not to aid in or encourage any person or entity in connection with any lawsuit or other adversarial proceeding against Company or any Company Affiliates. Employee also agrees not to participate in any lawsuit or other adversarial proceeding against Company or any Company Affiliates for matters arising in connection with events occurring, in whole or in part, prior to Employee's Separation Date, to the maximum extent permitted by law.
- (q) To the extent Employee has not already done so, Employee shall, before the Effective Date of this Agreement, return all of Company's and Company Affiliates' property in Employee's possession or control, including but not limited to any Confidential Information, any Company and/or Company Affiliates issued credit card, Company and/or Company Affiliates' equipment, identification badges, reports, client lists, training and supervisory manuals, documents, records, notebooks, computers, laptops, projectors, scanners, computer disks, cellular phones, smartphones, tapes, electronic storage devices, and similar repositories of or documents containing any Confidential Information, including all existing copies, abstracts, and summaries thereof, without retaining any access to any such property or documents (either in paper or digital form).

- (r) To the extent Employee has not already done so, Employee agrees within thirty (30) days of the Separation Date, to submit any and all business expense reimbursement requests, including supporting documentation. Employee shall be reimbursed for any reasonable, legitimate, outstanding business expenses in accordance with Company and/or Company Affiliates' policies. Employee understands that expenses not timely and properly submitted in accordance with this Paragraph shall not be subject to reimbursement by Company. Employee further agrees within fourteen (14) days of the Separation Date to make payment for any outstanding personal expenses incurred on any Company or Company Affiliates issued credit card, and hereby represents that any and all such personal expenses have been paid as of the date the Employee has executed this Agreement. If any personal expenses (or other pending debts) have not been paid as of the date Employee executes this Agreement, then Employee's signature on this Agreement expressly authorizes Company to deduct any pending unpaid personal expenses or any other pending debts owed to Company or any Company Affiliates from the Initial Separation Pay and/or Supplemental Separation Pay until paid in full. Employee acknowledges that the amount of Initial Separation Pay and/or Supplemental Separation Pay referenced herein shall be reduced by the amount of any deduction authorized in this Paragraph.
- (s) Employee represents and warrants there are no existing or outstanding attorneys' liens or other liens that are not extinguished or satisfied by the execution of this Agreement. Employee agrees to indemnify and hold harmless Company and/or any Company Affiliates, for any liability in connection with such liens.
- (t) In accordance with applicable law, nothing herein shall restrict Employee from, or expose Employee to criminal or civil liability under federal or state trade secret law for, (i) directly or indirectly sharing, in confidence, without notice to Company, any information regarded by Company or any Company Affiliate as trade secrets (except information protected by Company or Company Affiliates attorney-client or work product privilege), with an attorney or with any federal, state, or local government agencies or officials, for the purpose of investigating or reporting a suspected violation of law, (ii) disclosing trade secrets in a complaint or other document filed in a lawsuit or other proceedings, provided that the filing is made under seal, or (iii) in connection with any retaliation lawsuit filed by Employee for reporting a suspected violation of law, disclosing trade secrets to Employee's attorney or using trade secrets in the retaliation court proceeding, provided that documents containing trade secrets are filed under seal and trade secrets are not otherwise disclosed except pursuant to court order.

4. Nothing in this Agreement is intended to limit, restrict or interfere with Employee's ability to file a charge or complaint with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, Inc. ("FINRA"), the Equal Employment Opportunity Commission, or any other federal, state or local governmental or law enforcement agency, commission or self-

regulatory organization (“Government Agencies”). Moreover, nothing in this Agreement is intended to limit, restrict or interfere with Employee’s right to engage in any protected activity, including but not limited to communicating with, providing (without notice to Company) documentation or information to, testifying before, or otherwise participating in any investigation or proceeding conducted by or held before Government Agencies. Moreover, nothing herein shall restrict Employee’s right to receive an award for information provided to the U.S. Securities and Exchange Commission pursuant to Section 21F of the Securities Exchange Act of 1934, as amended.

5. The Parties further agree as follows:

- (a) Unless specified herein, this Agreement (including Exhibits A and B hereto) constitutes the entire agreement between Employee and Company with respect to the matters contemplated hereby. No modification or waiver of any provision of this Agreement will be valid unless in writing and signed by Employee and an officer of Company. Further, in entering into this Agreement, the Parties did not rely on any promise or agreement not included in this Agreement.
- (b) Except as set forth in Paragraph 5(e), nothing herein, including Section 3(b) and the ADEA Release, shall impact Employee, Company and/or Company Affiliates’ rights under the Indemnification Agreement entered into between Employee and Waddell & Reed Financial, Inc. as of November 13, 2009 (the "Indemnification Agreement") and any coverage Employee may continue to have under Company’s or Company Affiliates’ Directors and Officers insurance policies, certificate of incorporation or bylaws. Nothing in this agreement shall be construed to waive Employee’s rights under the Indemnification Agreement.
- (c) This Agreement is severable. If any provision of this Agreement, other than Paragraph 3(b), is declared unenforceable, void, invalid, or voidable, then the Parties intend that the validity, legality, and enforceability of the remaining provision of this Agreement shall in no way be affected or impaired, and the remaining provision of this Agreement shall remain valid and enforceable as written, to the fullest extent permitted by law.
- (d) Unless otherwise preempted by federal law, and where permitted by applicable law, this Agreement shall be construed in accordance with the laws of the State of Kansas, regardless of any conflict of laws provision.
- (e) In consideration of the payments, benefits, and releases outlined in this Agreement, and to the maximum extent permitted by applicable law, the Parties agree to arbitrate any dispute, claim or controversy that may arise between Employee and Company and/or any Company Affiliates arising out of this Agreement, Employee’s employment or other association with Company, or the Indemnification Agreement.

- (1) Unless otherwise mandated by FINRA, any arbitration initiated herein shall be held pursuant to the JAMS Employment Arbitration Rules & Procedures (and no other rules), which are currently available at <http://www.jamsadr.com/rules-employment-arbitration>, but shall not be administered by JAMS unless (i) expressly agreed to by the Parties, and/or (ii) the Parties are unable to reach an agreement as to arbitrator selection. The Parties agree that in any dispute arising under the Indemnification Agreement, the Parties shall use a mutually acceptable arbitrator with experience applying Delaware law.
- (2) Notwithstanding, and to the extent permitted by applicable law, any party may file an action in a court of competent jurisdiction for the sole and limited purpose of seeking temporary injunctive relief. A party initiating such temporary injunctive relief pursuant to this Paragraph must also simultaneously initiate an arbitration seeking permanent injunctive relief in accordance with Paragraph 5(e). Such arbitration action shall be stayed pending completion of the temporary injunctive relief proceedings. Any decision rendered by a court of competent jurisdiction granting or denying temporary injunctive relief is binding on all parties and shall also be recognized and given full force and effect in the arbitration proceedings.
- (3) The Parties further agree that any binding arbitration award rendered may be entered as a judgment in any court of competent jurisdiction.
- (4) To the maximum extent permitted by applicable law, all claims brought under this binding arbitration agreement shall be brought in the individual capacity of Employee or the Company. This binding arbitration agreement shall not be construed to allow or permit the consolidation or joinder of other claims or controversies involving any other employees or associated persons, or permit such claims or controversies to proceed as a class action, collective action, or any similar representative action. By signing this agreement, the Parties expressly waive any substantive or procedural rights that they may have to bring an action on a class, collective, representative or other similar basis. Likewise, any arbitrator selected by the Parties hereto is without authority or jurisdiction to arbitrate a dispute as a class, collective, or representative action; however, all issues concerning enforceability of this provision will be decided by the arbitrator in accordance with applicable law, as will any claim heard pursuant to this Paragraph. In the event that a class, collective, or representative action is filed in court, the Parties agree that this Agreement regarding the arbitration of individual claims may be enforced.
- (5) If for any reason this provision is declared unenforceable regarding any dispute arising out of or related to this Agreement or Employee's employment or association with the Company, to the maximum extent

permitted by applicable law, the Parties expressly, knowingly, and voluntarily waive any right to a trial by jury on any such dispute, and further agree that any such action shall be brought in the federal or state courts situated in Kansas, regardless of the state of residence of any party to such action. Through this waiver, the Parties agree that any trial in a court of law on any such dispute is to be a bench trial (i.e., determined exclusively and solely by the Court, not a jury).

- (f) In the event of a breach of any provision of this Agreement by Employee, Company shall be entitled immediately to cease and terminate the performance of its obligations under this Agreement, as set out in Paragraphs 1 and 2, without relieving Employee of the performance of Employee's obligations under this Agreement, to the maximum extent permitted by applicable law.
- (g) Neither the existence of this Agreement nor anything in this Agreement shall constitute an admission of any liability on the part of Company or any Company Affiliates, which expressly deny any and all such liability. Neither the existence of this Agreement nor anything contained in this Agreement shall be construed as rendering Employee a "prevailing party" for purposes of awarding attorneys' fees.
- (h) To the extent applicable, it is intended that this Agreement comply with the provisions of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") to the extent that this Agreement constitutes a "nonqualified deferred compensation plan" as such term is defined in Code Section 409A, and this Agreement shall be construed and applied in a manner consistent with this intent. In this regard, each payment made under this Agreement shall be treated as a separate payment and the right to a series of installment payments under this Agreement is to be treated as a right to a series of separate payments. Any reimbursements under this Agreement that would constitute nonqualified deferred compensation subject to Section 409A of the Code shall be subject to the following additional rules: (i) no reimbursement of any such expense shall affect Employee's right to reimbursement of any such expense in any other taxable year; (ii) reimbursement of the expense shall be made, if at all, promptly but not later than the end of the calendar year following the calendar year in which the expense was incurred; and (iii) the right to reimbursement shall not be subject to liquidation or exchange for any other benefit. The payments and benefits payable to Employee under this Agreement shall be construed as exempt from Section 409A to the maximum possible extent. Except as described above, Company makes no representations regarding the taxation of the payments and benefits provided under this Agreement (and the manner in which such payments and benefits are reported to Employee or an appropriate taxing jurisdiction by Company is not intended to be such a representation) and in no event shall Company or any Company Affiliate be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by Employee on account of the payments and benefits provided under this Agreement (including taxes, penalties, interest or other

expenses resulting from non-compliance with Section 409A of the Internal Revenue Code or excise taxes imposed by Section 4999 of the Internal Revenue Code).

- (i) Company's or Employee's failure to exercise any of its rights under this Agreement with regard to a breach of this Agreement shall not be construed as a waiver of such breach, nor shall it prevent Company or Employee from later enforcing strict compliance with any and all promises in this Agreement.
- (j) This Agreement will be binding on and inure to the benefit of Employee and Employee's heirs, administrators, representatives, executors, successors, and assigns, and will be binding on and inure to the benefit of Company, Company Affiliates, and those entities' successors and assigns.
- (k) This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which shall constitute together one and the same Agreement. Any party to this Agreement may execute this Agreement by signing any such counterpart. PDF, facsimile, and other true and correct copies of this Agreement shall have the same force and effect as originals hereof.

6. This Agreement will become effective, binding, enforceable, and irrevocable on the date it is signed by both Employee and an officer of the Company (the "Effective Date"). For avoidance of doubt, following the Effective Date, this Agreement will remain enforceable, binding, and irrevocable regardless of whether Employee executes the ADEA Release (and, if Employee does so, regardless of whether Employee timely revokes the ADEA Release); provided that if Employee does not timely execute the ADEA Release (or if Employee timely revokes the ADEA Release after signing it) she will not receive the consideration set forth in Paragraph 2 of this Agreement. If Employee fails to execute this Agreement on or before May 3, 2018, then this Agreement and all offers made herein shall be null and void.

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IN WITNESS WHEREOF, the parties have executed this Agreement on the day and year indicated below.

For Employee:

BY SIGNING BELOW, I SPECIFICALLY AGREE THAT I HAVE READ THE FOREGOING AGREEMENT, THAT I FULLY UNDERSTAND EACH AND EVERY PROVISION OF THIS AGREEMENT, INCLUDING BUT NOT LIMITED TO THE RELEASE OF ALL CLAIMS AND THE ARBITRATION PROVISION CONTAINED WITHIN IT, THAT I HAVE HAD AN

OPPORTUNITY TO CONSULT WITH AN ATTORNEY OF MY OWN CHOOSING ABOUT THIS AGREEMENT, THAT I AM COMPETENT TO MANAGE MY BUSINESS AND PERSONAL AFFAIRS, THAT I VOLUNTARILY AND KNOWINGLY ASSENT TO ALL THE TERMS AND CONDITIONS IN THIS AGREEMENT, AND THAT I AM VOLUNTARILY, FREELY AND KNOWINGLY EXECUTING IT WITHOUT ANY COERCION OR DURESS.

Date: 4/18/18 /s/ Wendy J. Hills
WENDY J. HILLS

**For
Company:**

Date: 4/18/18 /s/ Philip J. Sanders
W&R CORPORATE LLC

EXHIBIT A

ADEA RELEASE

In exchange for the payments and other consideration provided to Wendy J. Hills ("Employee") under the Separation Agreement and Release of All Claims between Employee and W&R Corporate LLC and its affiliates (the "Separation Agreement"), to which this ADEA Release is an Exhibit, and as a precondition to Employee's receipt of the payments and other consideration set forth in Paragraph 2 thereof, Employee hereby agrees as follows. All capitalized terms utilized but not defined herein shall have the same meanings ascribed to them in the Separation Agreement:

1. Employee hereby waives and releases any and all Claims that she or any of the other Releasers had, have, or might have against any of the Releasees under the Age Discrimination in Employment Act of 1967 ("*ADEA*") (29 U.S.C. § 626, as amended)(a law that prohibits discrimination on the basis of age) and Older Workers Benefit Protection Act, whether such Claims are known to Employee or unknown to Employee, whether they are vested or contingent, whether they are suspected or unsuspected, and whether they are concealed or hidden, arising from the beginning of the world through the ADEA Release Effective Date (as defined below). Except as provided below, Employee agrees that neither she nor any of the other Releasers will initiate or cause to be initiated on her behalf any lawsuit or arbitration alleging that any of the Releasees violated the ADEA or any other law governing age discrimination.

2. For avoidance of doubt, the foregoing Release does not include any claims that cannot be released or waived by law, nor does it prohibit Employee or any of the other Releasers from filing a charge or complaint with or participating in an investigation or proceeding conducted by any Government Agencies (including but not limited to the Equal Employment Opportunity Commission); provided, however, that Employee and the other Releasers are releasing and waiving the right to seek or accept any compensatory damages, back pay, front pay, or reinstatement remedies for Employee or the other Releasers personally with respect to any and all Claims released in this ADEA Release; and provided further that nothing herein shall restrict Employee's right to receive an award for information provided to the U.S. Securities and Exchange Commission pursuant to Section 21F of the Securities Exchange Act of 1934.

3. Employee acknowledges that by Employee executing this Agreement, Employee and the other Releasers are waiving and releasing any and all legal rights and claims they may have under the ADEA and all other federal, state and local laws regarding age discrimination, whether those claims are currently known to Employee or hereafter discovered. However, nothing in the foregoing is intended to limit or restrict Employee's right to challenge the validity of this Agreement as to claims and rights asserted under the ADEA or Employee's right to enforce the Agreement. Employee further agrees that in the event she or any of the other Releasers brings any ADEA Claims against any of the Releasees, or in the event they seek to recover monetary or other compensation against any of the Releasees through any ADEA Claim brought by a governmental agency on their behalves, this ADEA Release shall serve as a complete defense to such Claims.

4. In accordance with the ADEA and the Older Workers Benefit Protection Act, Employee understands that her release of ADEA claims is subject to the following special procedures: Employee will have twenty-one (21) days from the date of her receipt of this ADEA Release to consider the provisions of the Separation Agreement and this ADEA Release and execute this ADEA Release. To the extent Employee executes this ADEA Release prior to the end of this twenty-one (21) day period, Employee hereby knowingly and voluntarily waives the remainder of this twenty-one (21) day period. Employee further acknowledges that Company advised/hereby advises Employee that she may revoke her execution of this

ADEA Release within seven (7) days of signing it (the "Revocation Period") by providing written notice to the Company's Chief Human Resources Officer, at 6300 Lamar Avenue, Overland Park, Kansas 66202, crackers@waddell.com, (tel.) 913.236.1903, by email (with "read" receipt) or overnight delivery (via UPS or FedEx, with confirmation of delivery). Employee may not revoke her acceptance of this Agreement after the Revocation Period closes.

5. If Employee does not revoke this ADEA Release within seven (7) days from the date she executes it, this ADEA Release will become fully binding, effective, and enforceable on the eighth (8th) calendar day after the day she executes it (the "*ADEA Release Effective Date*"). For avoidance of doubt, should Employee fail to timely execute this ADEA Release, or should she timely revoke this ADEA Release after signing it, (A) she shall receive the payments and benefits set forth in Paragraph 1 of the Separation Agreement, (B) the Company's and Company Affiliates' obligations under Paragraph 2 of the Separation Agreement shall be null and void and of no force or effect, and (C) the remainder of the Separation Agreement shall remain binding, enforceable, and irrevocable.

6. By signing below, Employee acknowledges and agrees that she (i) has carefully read and fully understands all of the provisions of the Separation Agreement (including this ADEA Release), (ii) knowingly and voluntarily agrees to all of the terms set forth in the Separation Agreement (including this ADEA Release); (iii) knowingly and voluntarily agrees to be legally bound by the Separation Agreement (including this ADEA Release); (iv) has been advised to consult with an attorney prior to signing this Separation Agreement (including this ADEA Release); (v) has been represented by competent counsel, Sanford Heisler Sharp, LLP, in connection with the negotiation and execution of the Separation Agreement (including this ADEA Release); (vi) has full power to release her and the other Releasers' ADEA Claims as set forth herein; and (vii) has not assigned any such Claims to any individual or to any corporation, partnership or any other entity or organization.

7. This Exhibit A shall be part of the Separation Agreement and, once executed, may be enforced in accordance with the terms of the Separation Agreement. Employee understands that once the Separation Agreement becomes effective, it will remain effective and irrevocable regardless of whether this ADEA Release is timely executed (or, if it is executed, regardless of whether it is timely revoked); provided that if Employee does not timely execute the ADEA Release (or if Employee timely revokes the ADEA Release after signing it) she will not receive the consideration set forth in Paragraph 2 of the Separation Agreement. Employee further understands that if she and/or the Company fail to timely execute the Separation Agreement, then the Separation Agreement (including this ADEA Release) will be null and void.

To confirm Employee's understanding of, and agreement to the terms of this ADEA Release, and to execute it, she has signed and dated it below:

Date: 4/18/18

/s/ Wendy J. Hills
WENDY J. HILLS

EXHIBIT B

SEPARATION AGREEMENT AND RELEASE OF CLAIMS

SUMMARY OF BENEFITS

This exhibit is provided for your convenience. The information included in this exhibit is intended to summarize the impact of your termination of employment on your benefits under the Company and Company Affiliate benefit plans. Every effort has been made to ensure that this information is accurate. This exhibit is not meant to be a complete description of the plans, nor is it meant to interpret, extend or change the plan provisions or related contracts in any way. If there is a conflict between this exhibit and the plans, the plan provisions control your right to benefits. Copies of the plan documents are available upon request.

Vacation Days

Any accrued but unused 2018 vacation time will be paid on your last regular paycheck.

401(k) and Thrift Plan

If you participate in the Waddell & Reed Financial, Inc. 401(k) and Thrift Plan (the "401(k) Plan"), your eligibility to participate terminates on your Separation Date. Additionally, Separation Pay is not included in compensation under the 401(k) Plan. A distribution packet will be mailed to you from the recordkeeper, One America, after your Separation Date. Distribution of your 401(k) Plan account will be made in accordance with the 401(k) Plan terms. For questions concerning the 401(k) Plan, please see the summary plan description or contact the Benefits Department by email at Benefits@Waddell.com.

Pension Plan

If you participate in the Waddell & Reed Financial, Inc. Retirement Income Plan (the "Pension Plan"), your eligibility to participate and accrue benefits terminated on September 30, 2017, the date the Pension Plan was frozen. You must be a participant and vested to receive a retirement benefit under the Pension Plan. To become a participant you must complete one year of service. To become vested you must complete 5 years of service or attain the age of 65 prior to terminating employment. You may commence a reduced retirement benefit any time after the age of 55 if you have 10 years of service, otherwise you must wait to commence your retirement benefits until the age of 65. If you are entitled to a Pension Plan benefit, you will receive more information after your Separation Date. Distributions of Pension Plan benefits will be made in accordance with the Pension Plan. For questions concerning the Pension Plan, please see the summary plan description or contact the Benefits Department by email at Benefits@Waddell.com.

Medical, Dental, and Vision

If you participate in the medical, dental or vision benefit programs, your coverage terminates on the last day of the month in which your Separation Date occurs. You may elect to continue your coverage under COBRA.

COBRA:

A COBRA election notice and election form will be sent to you after you lose coverage. We have outsourced COBRA administration to The Taben Group. If you have any questions, you may contact the Taben Group at **800.675.7341** or by email at TabenCustomerService@taben.com.

Employee Assistance Program (EAP)

Your coverage under the EAP generally terminates on your Separation Date, unless you elect COBRA continuation coverage. However, EAP benefits are currently available for free for up to 90 days after your Separation Date.

Wellness Plan (Vitality)

Any wellness premium discount/incentive will be discontinued on your Separation Date.

Health Care Flexible Spending Account (FSA)

If you participate in the FSA, your participation in the FSA terminates on the last day of the month in which your Separation Date occurs. However, if your FSA account is underspent when your coverage ends, you may elect COBRA continuation coverage for your FSA through the end of the calendar year in which your Separation Date occurs. If you continue coverage through the end of the calendar year in which your Separation Date occurs, eligible expenses incurred during the grace period (i.e., January 1 through March 15 of the following calendar year) will also be eligible for reimbursement. If you do not continue coverage only eligible expenses incurred through your coverage ending date will be eligible for reimbursement. You will have until May 31 of the following calendar year to request reimbursement of eligible expenses from your FSA. To review your account balance, please contact ASI Flex at 800-659-3035 or visit the ASI Flex website at www.asiflex.com.

Dependent Care Flexible Spending Account Program (DCAP)

If you participate in the DCAP, your participation in the DCAP terminates on the last day of the month in which your Separation Date occurs. You may request reimbursement for eligible expenses incurred through the end of the calendar year in which your Separation Date occurs and during the grace period ending on March 15 of the following year. You will have until May 31 of the following calendar year to request reimbursement of eligible expenses. To review your account balance, please contact ASI Flex at 800-659-3035 or visit the ASI Flex website at www.asiflex.com.

Health Savings Account (HSA)

If you participate in the HSA, your participation in the HSA terminates on the last day of the month in which your Separation Date occurs. After you lose eligibility to contribute to your HSA, you may continue to use your funds to pay for qualified medical expenses. You may make new contributions to your HSA if you enroll in a high deductible health plan. If you enroll in Medicare, you cannot contribute to your HSA. For questions about your HSA, please contact UMB at **813.474.4472** or **866.520.4472** or visit their website at <https://hsa.umb.com>.

Transportation and Parking

If you participate in the transportation and parking benefits program, your participation in the program terminates on your Separation Date. You must submit claims for reimbursement of qualified transportation expenses from your account **within 45 days** after your Separation Date. Any remaining balance in your account will be forfeited after your Separation Date, subject to the reimbursement

deadline. To review your account balance, please contact ASI Flex at 800-659-3035 or visit the ASI Flex website at www.asiflex.com.

Life & Accidental Death and Dismemberment (AD&D)

Your coverage under the life and AD&D program terminates on your Separation Date. You may continue your life insurance coverage, but not AD&D coverage, subject to the time limits and other requirements specified under the plan. Therefore, if you would like to continue your coverage you should request to continue coverage as soon as possible after your Separation Date. To continue your coverage contact The Hartford customer service at **877.320.0484** and reference the Waddell & Reed Group Policy #402833 or email the Waddell & Reed Benefits Department at Benefits@Waddell.com.

Long Term Disability (LTD)

If you participate in the LTD program, your coverage under the LTD program terminates on your Separation Date. You may not continue LTD coverage.

Voluntary Insurance Programs

The voluntary insurance programs include the critical illness benefit program, long-term care benefit program, supplemental life benefit program and the supplemental LTD benefit program. If you participate in the voluntary insurance programs, your coverage terminates on your Separation Date or as otherwise provided by your individual policy. Payroll deductions for the voluntary insurance programs will continue through your last regular paycheck. However, you may continue your coverage, subject to the time limits and other requirements specified under the program and your individual policy. Therefore, if you would like to continue your coverage you should request to continue coverage as soon as possible after your Separation Date. To continue your coverage contact the following providers, as applicable:

- For the **Critical Illness Benefit Program** contact Aflac customer service at **800.433.3036**.
- For the **Long-Term Care Benefit Program** contact MetLife customer service at **800.929.1492 option 5**.
- For the **Supplemental Life Insurance Program** contact Minnesota Life customer service at **866.293.6047**.
- For the **Supplemental LTD Benefit Program** contact MetLife customer service at **800.929.1492 option 5**.

If you wish to cancel any of the above mentioned benefits, you must submit a written cancellation request to Human Resources.

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Section 3: EX-31.1 (EX-31.1)

Exhibit 31.1

I, Philip J. Sanders, certify that:

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

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2018

/s/ Philip J. Sanders
Philip J. Sanders
Chief Executive Officer and
Chief Investment Officer

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Section 4: EX-31.2 (EX-31.2)

Exhibit 31.2

I, Benjamin R. Clouse, certify that:

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

Date: August 3, 2018

/s/ Benjamin R. Clouse
Benjamin R. Clouse
Senior Vice President and
Chief Financial Officer

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Section 5: EX-32.1 (EX-32.1)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Philip J. Sanders, Chief Executive Officer and Chief Investment Officer of Waddell & Reed Financial, Inc. (the "Company") hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 (the "Act"), that:

1. The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 (the "Report") dated August 3, 2018 and filed with the United States Securities and Exchange Commission fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 3, 2018

/s/ Philip J. Sanders
Philip J. Sanders
Chief Executive Officer and
Chief Investment Officer

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Section 6: EX-32.2 (EX-32.2)

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Benjamin R. Clouse, Senior Vice President and Chief Financial Officer of Waddell & Reed Financial, Inc. (the "Company") hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 (the "Act"), that:

1. The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 (the "Report") dated August 3, 2018 and filed with the United States Securities and Exchange Commission fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 3, 2018

s/ Benjamin R. Clouse
Benjamin R. Clouse
Senior Vice President and
Chief Financial Officer

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