

FEDERATED INVESTORS INC /PA/

Form 10-Q

April 23, 2010

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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 March 31, 2010

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 001-14818

Federated Investors, Inc.

(Exact name of registrant as specified in its charter)

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Pennsylvania
(State or other jurisdiction of
incorporation or organization)

25-1111467
(I.R.S. Employer
Identification No.)

Federated Investors Tower

Pittsburgh, Pennsylvania
(Address of principal executive offices)

15222-3779
(Zip Code)

(Registrant's telephone number, including area code) **412-288-1900**

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date: As of April 20, 2010, the Registrant had outstanding 9,000 shares of Class A Common Stock and 103,222,016 shares of Class B Common Stock.

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Special Note Regarding Forward-Looking Information		

Certain statements in this report on Form 10-Q including those related to asset flows and business mix; obligations to make additional contingent payments pursuant to acquisition agreements; obligations to make additional payments pursuant to employment agreements; the costs associated with the settlement with the Securities and Exchange Commission and the New York State Attorney General; legal proceedings; future cash needs and management's expectations regarding borrowing; future principal uses of cash; performance indicators; impact of accounting policies and new accounting pronouncements; concentration risk; indemnification obligations; the impact of increased regulation (including the possible impact of recent amendments to Rule 2a-7 of the Investment Company Act of 1940); the prospect of increased distribution-related expenses; insurance recoveries; management's expectations regarding fee waivers and the impact of such waivers on revenues and net income; the ability to raise additional capital; the rising costs of risk management; possible impairment charges; tax expenses; capital losses; the impact of the forward-starting interest rate swap and the various items set forth under the section entitled Risk Factors constitute forward-looking statements, which involve known and unknown risks, uncertainties, and other factors that may cause the actual results, levels of activity, performance or achievements of Federated or industry results, to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Among other risks and uncertainties, market conditions may change significantly resulting in changes to Federated's asset flows and business mix, which may cause a decline in revenues and net income, result in impairments and increase the amount of fee waivers incurred by Federated. The obligation to make contingent payments is based on certain growth and fund performance targets and will be affected by the achievement of such targets, and the obligation to make additional payments pursuant to employment agreements is based on satisfaction of certain conditions set forth in those agreements. Future cash needs and future uses of cash will be impacted by a variety of factors, including the number and size of any acquisitions, Federated's success in distributing its products, the resolution of pending litigation, potential increases in costs relating to risk management, as well as potential changes in assets under management and/or changes in the terms of distribution and shareholder services contracts with intermediaries who offer Federated's products to customers. Federated's risks and uncertainties also include liquidity and credit risks in Federated's money market funds and revenue risk, which will be affected by yield levels in money market fund products, changes in market values of assets under management, the ability of Federated to collect fees in connection with the management of such products. Many of these factors may be more likely to occur as a result of the ongoing threat of terrorism and the increased scrutiny of the mutual fund industry by federal and state regulators, and the recent and ongoing disruption in global financial markets. As a result, no assurance can be given as to future results, levels of activity, performance or achievements, and neither Federated nor any other person assumes responsibility for the accuracy and completeness of such statements in the future. For more information on these items, see the section entitled Risk Factors herein under Item 2 of Part I, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Table of Contents**Part I, Item 1. Financial Statements****Consolidated Balance Sheets**

(dollars in thousands)

(unaudited)

	March 31, 2010	December 31, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 41,573	\$ 90,452
Investments	34,183	31,538
Receivables - affiliates	10,499	11,490
Receivables - other, net of reserve of \$139 and \$200, respectively	11,492	8,144
Prepaid expenses	10,290	27,090
Current deferred tax asset, net	10,411	11,166
Other current assets	1,594	4,907
Total current assets	120,042	184,787
Long-Term Assets		
Goodwill	586,548	581,673
Customer-relationship intangible assets, net	68,697	71,959
Other intangible assets, net	8,811	9,364
Deferred sales commissions, net of accumulated amortization of \$52,560 and \$50,018, respectively	13,139	15,318
Property and equipment, net of accumulated depreciation of \$37,142 and \$35,541, respectively	39,210	40,027
Other long-term assets	9,036	9,305
Total long-term assets	725,441	727,646
Total assets	\$ 845,483	\$ 912,433
LIABILITIES		
Current Liabilities		
Short-term debt - recourse	\$ 102,750	\$ 21,000
Accounts payable and accrued expenses	50,454	50,404
Accrued compensation and benefits	24,951	64,387
Other current liabilities	70,501	61,207
Total current liabilities	248,656	196,998
Long-Term Liabilities		
Long-term debt - recourse	98,000	105,000
Long-term debt - nonrecourse	11,231	13,556
Long-term deferred tax liability, net	38,535	39,234
Other long-term liabilities	12,525	14,917

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Total long-term liabilities	160,291	172,707
Total liabilities	408,947	369,705
Commitments and contingencies (Note (14))		
TEMPORARY EQUITY		
Redeemable noncontrolling interests in subsidiaries	16,837	13,913
PERMANENT EQUITY		
Federated Investors shareholders' equity		
Common stock:		
Class A, no par value, 20,000 shares authorized, 9,000 shares issued and outstanding	189	189
Class B, no par value, 900,000,000 shares authorized, 129,505,456 shares issued	223,565	216,820
Retained earnings	984,839	1,105,073
Treasury stock, at cost, 26,292,440 and 26,571,219 shares Class B common stock, respectively	(789,314)	(795,389)
Accumulated other comprehensive (loss) income, net of tax	(324)	1,514
Total Federated Investors shareholders' equity	418,955	528,207
Nonredeemable noncontrolling interest in subsidiary	744	608
Total permanent equity	419,699	528,815
Total liabilities, temporary equity and permanent equity	\$ 845,483	\$ 912,433

(The accompanying notes are an integral part of these Consolidated Financial Statements.)

Table of Contents**Consolidated Statements of Income**

(dollars in thousands, except per share data)

(unaudited)

	Three Months Ended March 31,	
	2010	2009
Revenue		
Investment advisory fees, net-affiliates	\$ 139,410	\$ 176,113
Investment advisory fees, net-other	15,083	14,356
Administrative service fees, net-affiliates	56,249	66,945
Other service fees, net-affiliates	18,277	48,953
Other service fees, net-other	2,977	2,379
Other, net	974	1,897
 Total revenue	 232,970	 310,643
Operating Expenses		
Compensation and related	64,396	66,227
Distribution	58,490	122,772
Professional service fees	10,079	10,007
Office and occupancy	6,296	6,666
Systems and communications	5,758	5,962
Travel and related	2,429	2,443
Advertising and promotional	2,156	2,650
Intangible asset impairment and amortization	3,815	20,730
Amortization of deferred sales commissions	3,172	4,873
Other	4,569	8,264
 Total operating expenses	 161,160	 250,594
 Operating income	 71,810	 60,049
Nonoperating Income (Expenses)		
Investment income, net	284	250
Loss on securities, net	(258)	(652)
Debt expense recourse	(620)	(1,112)
Debt expense nonrecourse	(167)	(432)
Other, net	(12)	20
 Total nonoperating expenses, net	 (773)	 (1,926)
 Income before income taxes	 71,037	 58,123
Income tax provision	26,842	20,654
 Net income including noncontrolling interests in subsidiaries	 \$ 44,195	 \$ 37,469
Less: Net income attributable to noncontrolling interests in subsidiaries	2,188	2,334

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Net income		\$ 42,007	\$ 35,135
Amounts attributable to Federated Investors, Inc.			
Earnings per common share	Basic and Diluted	\$ 0.38	\$ 0.34
Total net income attributable to Federated Common Stock ¹		\$ 37,707	\$ 34,407
Cash dividends per share		\$ 1.50	\$ 0.24

(The accompanying notes are an integral part of these Consolidated Financial Statements.)

¹ *Federated Common Stock excludes unvested restricted stock which are deemed participating securities in accordance with the two-class method of computing earnings per share. See Note (13) for additional information on the calculation of earnings per share.*

Table of Contents**Consolidated Statements of Changes in Equity**

(dollars in thousands)

(unaudited)

	Federated Investors, Inc. Shareholders					Total Shareholders Equity	Nonredeemable Noncontrolling Interest in Total Permanent Subsidiaries/Equity	Redeemable Noncontrolling Interests in Subsidiaries/Temporary Equity	
	Common Stock	Additional Paid-in Capital from Treasury Stock Transactions	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss) Income, Net of Tax				
Balance at December 31, 2008	\$ 198,630	\$ 0	\$ 1,028,928	\$ (804,481)	\$ 297	\$ 423,374	\$ 417	\$ 423,791	\$ 779
Net Income	0	0	35,135	0	0	35,135	2,297	37,432	37
Other comprehensive income, net of tax:									
Reclassification adjustment net of unrealized loss ¹	0	0	(148)	0	250				