Waddell & Reed Financial, Inc.

2006 ANNUAL REPORT

Financial HIGHLIGHTS

	2006 [1]	2005 [2]	2004
(Dollar amounts in thousands, except per share data)			
Operating Revenues	$718,655	$622,080	$569,687
Operating Income	165,795	150,948	163,357
Net Income	$106,773	$90,947	$102,165
Diluted earnings per share	$1.28	$1.11	$1.25
Dividend per share	$0.60	$0.60	$0.60

Assets Under Management	2006	2005	2004
(millions)			
Advisors Channel	$29,905	$27,187	$25,297
Wholesale Channel	10,819	6,729	4,702
Institutional Channel	7,677	7,947	8,659
Total assets under management	$48,401	$41,863	$38,658
Equity	$42,388	$36,255	$32,927
Fixed Income	5,014	4,851	4,968
Money Market	999	757	763
Total assets under management	$48,401	$41,863	$38,658
S&P 500 Stock Index (year-end)	1,418.30	1,248.29	1,211.90

Gross Sales by Distribution Channel	2006	2005	2004
(millions)			
Advisors Channel	$3,216	$2,406	$2,219
Wholesale Channel	4,541	2,347	1,376
Institutional Channel	968	654	1,276
Total sales	$8,725	$5,407	$4,871

1. This is a non-GAAP financial measure that excludes special after-tax charges of $60.7 million, or $0.73 per diluted share. Net income including these special charges was $46.1 million, or $0.55 per diluted share
2 . This is a non-GAAP financial measure that excludes special after-tax charges of $30.8 million, or $0.38 per diluted share. Net income including these special charges was $60.1 million, or $0.73 per diluted share

See accompanying Annual Report on Form 10-K.

Business

PROFILE

Waddell & Reed is one of the country's oldest asset management and financial planning firms. We serve as investment advisor to four mutual fund families comprising virtually all major asset classes and a broad range of investment styles. We also are a significant distributor of these investment products.

OUR DISTRIBUTION CHANNELS

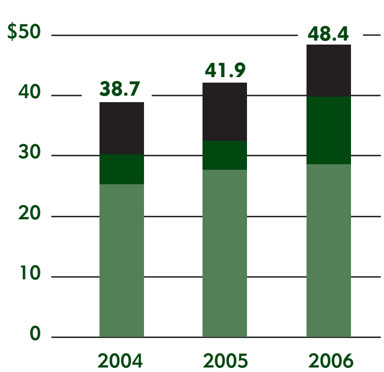
ADVISORS CHANNEL. Our national network of more than 2,250 financial advisors provides comprehensive, personal financial planning services to clients across the United States. As more and more middle-income and mass affluent individuals and families realize the importance of planning for their financial futures, the demand for professional financial advice has grown markedly. Our advisors specialize in developing personal financial planning and investment strategies for retirement, education, insurance, estate planning and other specific needs.

WHOLESALE CHANNEL. Through our national wholesaling effort, we distribute the Ivy Funds, W&R Target Funds and InvestEd Portfolios through certain unaffiliated broker/dealers, 401(k)/retirement channels and registered investment advisors. We also distribute mutual funds through our strategic partners and through The Legend Group, our Florida-based retirement planning subsidiary.

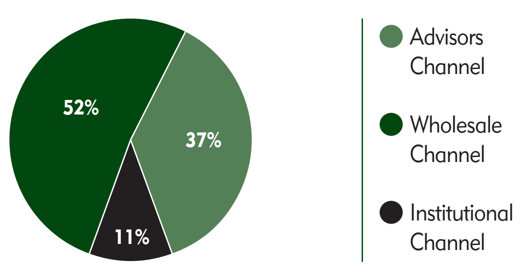
INSTITUTIONAL CHANNEL. Through Waddell & Reed Investment Management Company and Ivy Investment Management Company, several of our portfolio managers oversee investments for defined benefit plans, pensions, endowments and high net worth individuals. We also serve as a subadvisor for several funds through partnerships with other companies, including five U.S. mutual funds/variable annuity funds, 23 Canadian mutual funds through our relationship with Mackenzie Financial Corporation, three offshore funds through relationships with various institutions, and a major mandate with a company in the European and Asian markets. Through Austin Calvert & Flavin, our San Antonio, Texas-based subsidiary, we manage investments for trusts, pension plans of public and private entities, and high net worth individuals.

DISTRIBUTION CHANNEL HIGHLIGHTS

Assets Under Management
(in billions)



Gross Sales
Gross sales of investment products reached $8.7 billion in 2006, segmented between our distribution channels as follows:



1937
Chauncey Waddell joins Cameron Reed to form one of the first mutual fund and financial planning complexes in the country, Waddell & Reed, Inc.

1940
Waddell & Reed launches two of the very first mutual funds in the industry.

1950
Waddell & Reed creates one of the nation's first science and technology mutual funds.

1961
The company begins offering quality insurance products and services through a subsidiary.

1991
Waddell & Reed's assets under management reach the $10 billion mark.

1998
Waddell & Reed Financial, Inc.'s initial public offering of Class A common stock begins trading on NYSE under the symbol WDR.

2000
The United Group of Mutual Funds is renamed Waddell & Reed Advisors Funds, Inc.

2003
Waddell & Reed launches the new Ivy Funds and officially enters wholesale distribution.

2007
With nearly $50 billion in assets under management, Waddell & Reed officially commemorates its 70th anniversary.

WADDELL & REED 70 YEARS INVESTING IN PEOPLE

Stockholder

LETTER

HENRY J. HERRMANN
CHIEF EXECUTIVE OFFICER

ALAN W. KOSLOFF
CHAIRMAN OF THE BOARD

To our stockholders,

Waddell & Reed achieved strong operating performance in 2006, underscored by continued competitive investment performance, accelerating sales growth and increasing assets under management.

For the year, our assets under management increased by 16 percent to $48.4 billion, driven by a combination of organic growth and market action. Gross sales through retail distribution increased, resulting in significant growth in net sales in our Wholesale Channel and a material reduction in net outflows in our Advisors Channel. We continue to achieve balance in the distribution of our products, with the Advisors Channel accounting for approximately 40 percent of retail sales and the Wholesale Channel accounting for approximately 60 percent of retail sales in 2006.

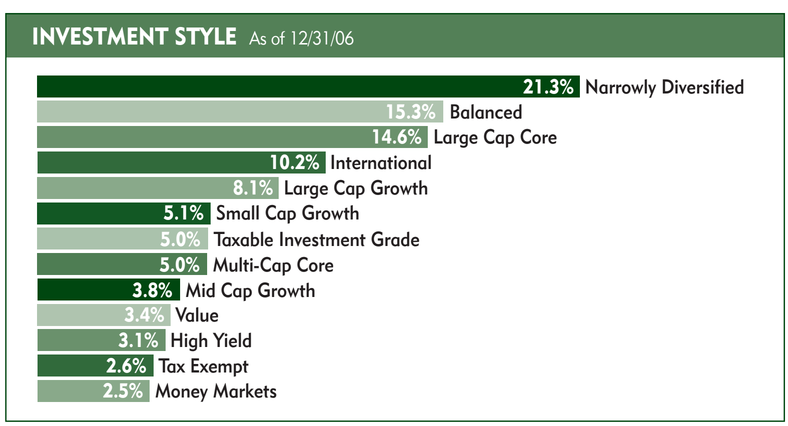
For the year, operating revenue increased 16 percent. Net income, excluding non-recurring charges, increased 17 percent, while operating margins slipped slightly from 24.3 percent in 2005 to 23.1 percent in 2006. This reflects the investments we made in our Advisors Channel, along with the strong sales growth we experienced in our Wholesale Channel.

Our progress throughout 2006 was rewarded with a 30 percent increase in our common stock price.

INVESTMENT MANAGEMENT

As always, asset management remains the heart of our business, and our funds' performance continues to rank among the most competitive in the industry. We attribute this to a combination of our process, our philosophy, and our core group of skilled managers. Our investment management team utilizes a collaborative process, blending rigorous, shared, internal research with individual accountability. We round out our management team with a premier group of subadvisors who bring similar investment philosophies and additional expertise in specific asset classes.

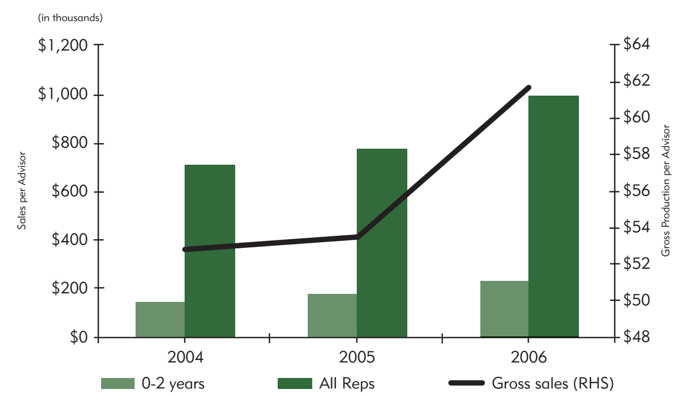
Over the most recent three-year period, 64 percent of our funds and 76 percent of the assets we manage ranked in the top half of their Lipper peer group. Over five years, 65 percent of our funds and 80 percent of managed assets were in the top half of their Lipper peer group. We believe that these results further illustrate the skill of our investment team and the breadth of our product line, both of which provide the foundation for the success of our distribution entities.



ADVISORS CHANNEL

Our Advisors Channel made steady progress, as momentum that started in the latter half of 2005 continued through 2006. Assets under management in this channel grew to $29.9 billion, a 10 percent improvement compared with 2005. Monthly sales, compared to the same month in 2005, showed consistent improvement. In fact, we saw improvement over 20 consecutive months, dating from May 2005 through December 2006. Advisor productivity also improved, especially among advisors who have experience of two years or less. We believe this reflects the enhancements in training and support made throughout 2005 and into 2006.

ADVISOR PRODUCTIVITY As of 12/31/06



Strengthening the Advisors Channel remains one of our primary goals, not only because it is a key part of our business, but because of the opportunities in the marketplace. Our distinct, personal and long-term approach to financial planning continues to yield industry-low redemption rates, while our distribution model continues to require low costs to acquire assets. Combined, this makes for a profitable business model that serves investors' needs for high-quality advice and guidance.

Outflows decreased from $1,186 million in 2004 to $654 million in 2005, and even further to outflows of $109 million in 2006. This improvement is directly tied to growth in sales, as gross sales of $3.2 billion in 2006 increased 34 percent over 2005. We continue to strive to increase our sales levels, and believe that our advisors are capable of even greater productivity.

Recruiting new advisors remains an important part of this channel and its future. While in the recent past we have focused primarily on improving the productivity of existing advisors, we also will seek growth in our number of advisors in 2007.

An ongoing part of our focus in this channel is to provide our advisors with the tools they need to better serve their clients and manage their individual practices. We have recently introduced a data aggregation system that helps each advisor better understand clients' financial positions, and we continually assess our entire product and technology platform to ensure that it remains comprehensive and competitive.

Overall, our investments in technology and support infrastructure continue apace, as we feel such investments are mandatory to remain effective and to attract and retain professionals in our industry.

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WHOLESALE CHANNEL

The Wholesale Channel achieved significant sales momentum in 2006, as it has consistently each year since it was launched in 2003. Total assets under management grew as net sales accelerated over the previous year. Asset growth in this channel is notable, having reached $10.8 billion at the end of 2006, representing a compound annual growth rate of approximately 40 percent since the relaunch of the Ivy Funds in the summer of 2003.

LIPPER RANKINGS
AS OF 12/31/06

Percentage Ranked in	1 Year	3 Years	5 Years
Equity Funds			
Top Quartile	23%	43%	41%
Top Half	43%	73%	76%
All Funds			
Top Quartile	19%	36%	33%
Top Half	46%	64%	65%

We attribute our success to three key factors: the strength and depth of our tenured investment team, which is an exceptional combination of managers that offers global reach and capabilities; the breadth of our product line, which spans every major investment category; and the outstanding work of our wholesalers.

The Ivy Funds have become an increasingly recognized competitor at the nation's largest mutual fund distributors, as gross sales in 2006 ranked among the top 25 at each of the five largest wirehouses in the U.S. We continue to strengthen and broaden our relationships across several major broker/dealer groups. To continue capitalizing on this opportunity, we anticipate building our wholesaling staff to 35 by year-end 2007, representing a 25 percent increase over 2006.

Looking ahead, we are optimistic about the continued growth of our Wholesale Channel. The rapid sales growth that we've witnessed has been welcome and, as our operation matures and gains greater scale, profitability should improve.

INSTITUTIONAL DISTRIBUTION

Through our Institutional Channel, we manage the investments of defined benefit plans, pensions, endowments and high net worth individuals. Overall, assets under institutional management increased slightly during 2006 to $7.7 billion at year-end.

In the fall of 2006, we established a new and potentially promising institutional investment management relationship with Pictet & Cie, which manages money throughout Europe and Asia. At year-end, through Pictet, we managed approximately $235 million under a large cap growth mandate. We remain optimistic about this relationship, which establishes our presence in the European market and may help lead to additional mandates.

Recently, the institutional business has seen a trend toward alternative investment products, most prominently hedge funds and private equity. Our expertise unfortunately consists of managing styles outside of current market demand. Given our steady performance, and our respected investment management team, we believe our style will, over the long term, bring better results and satisfaction to our clients.

MARKING 70 YEARS, AND LOOKING TO THE FUTURE

In 2007, our company celebrates 70 years in business, a significant milestone. This achievement is a tribute to our people and the culture that they sustain. As a whole, the Waddell & Reed family has always been sincere about its role as shepherd of our clients' resources.

Over the last two years, we have made significant changes and taken some important steps forward. Our Advisors Channel has been reinvigorated, and remains a distinct and highly profitable business. Our Wholesale Channel has seen very strong sales momentum and asset growth, and with the Ivy Funds we have now established a meaningful presence in wholesale distribution. Our Institutional Distribution continues to hold promise. Underlying it all is our strength in asset management, as our deep and tenured team continues to perform near the top of the industry.

As we considered ways to mark our 70th anniversary, we knew we wanted to do something not just internally, but also something outward, focusing on our clients, our advisors and the people we serve. Thus, we have launched our 70th anniversary tour of the country, utilizing a specially equipped and outfitted 18-wheel truck that will stop in nearly every state in the continental U.S. and interact with the public. Through that tour, we're partnering with the United Service Organization (USO) to donate care packages to U.S. troops stationed overseas. It is our way of saying 'thank you' to our clients and our troops. And, it is a way for us to acknowledge our past, while focusing on the future.

As we look ahead, we believe that Waddell & Reed remains in a unique and desirable position. We are committed to consistently creating value for our stockholders, and we are optimistic about our ability to do so over the next 70 years.

Sincerely,

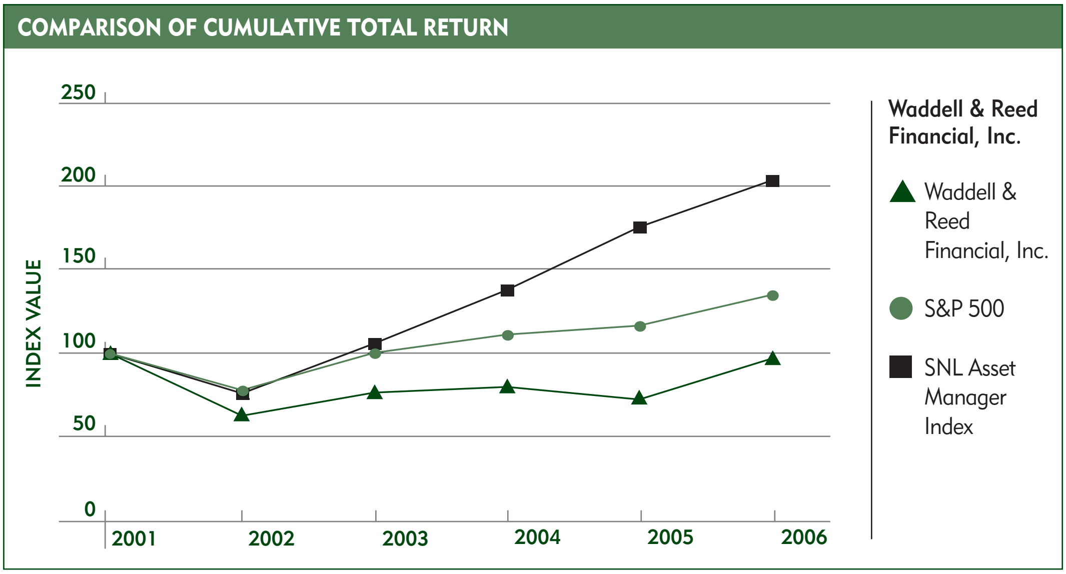
Henry J Herrmann

HENRY J. HERRMANN
CHIEF EXECUTIVE OFFICER

ALAN W. KOSLOFF
CHAIRMAN OF THE BOARD

Total Return

PERFORMANCE



The above graph compares the cumulative total stockholder return on the Company's Class A common stock from December 31, 2001 through December 31, 2006, with the cumulative total return of the Standard & Poor's 500 Stock Index and the SNL Investment Adviser Index. The SNL Investment Adviser Index is a composite of twenty-three publicly traded asset management companies (including, among others, the companies in the peer group reviewed by the Compensation Committee for executive compensation purposes) prepared by SNL Financial, Charlottesville, Virginia. The Graph assumes the investment of $100 in the Company's Class A common stock and in each of the two indices on December 31, 2001, with all dividends being reinvested. The closing price of the Company's Class A common stock on December 29, 2001 (the last trading day of the year) was $32.20 per share. The stock price performance on the graph is not necessarily indicative of future price performance.

Index	2001	2002	2003	2004	2005	2006
Waddell & Reed Financial, Inc.	100.00	62.46	76.34	79.78	72.17	96.73
S&P 500	100.00	75.84	105.75	137.97	175.47	203.49
SNL Asset Manager Index	100.00	77.90	100.24	111.14	116.59	135.00

Cumulative Total Return assumes an initial investment of $100 on December 31, 2001, with the reinvestment of all dividends through December 31, 2001.

Directors
AND OFFICERS

HENRY J. HERRMANN
Chief Executive Officer
Director
- 43 years industry experience
- 35 years with Waddell & Reed

ALAN W. KOSLOFF
Chairman of the Board
Chairman, Kosloff & Partners, LLC
Director (since 2003)[1, 2, 3]

DENNIS E. LOGUE
Chairman, Ledyard National Bank
Director (since 2002)[1, 3]

JAMES M. RAINES
President, James M. Raines and Co.
Director (since 1998)

RONALD C. REIMER
Advisor, Truman Medical Center
Director (since 2001)[1, 2, 3]

WILLIAM L. ROGERS
Chairman, The Halifax Group
Director (since 1998)[2, 3]

JERRY W. WALTON
Chief Financial Officer, J.B. Hunt Transport Services, Inc.
Director (since 2000)[2, 3]

[1] Audit Committee
[2] Compensation Committee
[3] Nominating and Corporate Governance Committee

		Years of Industry Experience	Years with Waddell & Reed
MICHAEL L. AVERY	*Senior Vice President and Chief Investment Officer*	28	25
THOMAS W. BUTCH	*Senior Vice President and Chief Marketing Officer*	25	7
DANIEL P. CONNEALY	*Senior Vice President and Chief Financial Officer*	37	3
DANIEL C. SCHULTE	*Senior Vice President and General Counsel*	9	9
MICHAEL D. STROHM	*Senior Vice President and Chief Operations Officer*	34	34
JOHN E. SUNDEEN, JR.	*Senior Vice President and Chief Administrative Officer—Investments*	23	23
ROBERT J. WILLIAMS, JR.	*Senior Vice President—Public Affairs*	33	10
BRENT K. BLOSS	*Vice President and Treasurer*	7	5
WENDY J. HILLS	*Vice President, Secretary and Associate General Counsel*	9	9
MARK A. SCHIEBER	*Vice President, Controller and Principal Accounting Officer*	26	26

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☑ **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2006

OR

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission file number 001-13913

WADDELL & REED FINANCIAL, INC.
(Exact name of registrant as specified in its charter)

Delaware	51-0261715
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6300 Lamar Avenue
Overland Park, Kansas 66202
913-236-2000
(Address, including zip code, and telephone number of Registrant's principal executive offices)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT

Title of each class	**Name of each exchange on which registered**
Class A Common Stock, $.01 par value	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☑ NO ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ☐ NO ☑.

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. ( )

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

Large accelerated filer ☑ Accelerated Filer ☐ Non-accelerated Filer ☐

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

The aggregate market value of the voting and non-voting common stock equity held by non-affiliates (*i.e.* persons other than officers, directors and stockholders holding greater than 5% of the registrant's common stock) based on the closing sale price on June 30, 2006 was $1.513 billion.

Shares outstanding of each of the registrant's classes of common stock as of February 23, 2007 Class A common stock, $.01 par value: 83,853,856

DOCUMENTS INCORPORATED BY REFERENCE

In Part III of this Form 10-K, portions of the definitive proxy statement for the 2007 Annual Meeting of Stockholders to be held April 11, 2007.

WADDELL & REED FINANCIAL, INC.

INDEX TO ANNUAL REPORT ON FORM 10-K
For the fiscal year ended December 31, 2006

PART I

ITEM 1. Business

Overview

Waddell & Reed Financial, Inc. (hereinafter referred to as the "Company," "we," "our" or "us") is a corporation, incorporated in the state of Delaware on December 24, 1981, that conducts business through its subsidiaries. We derive our revenues primarily from providing investment management, investment product underwriting and distribution and shareholder services administration to mutual funds and institutional and separately managed accounts. Founded in 1937, we are one of the oldest mutual fund complexes in the United States, having introduced our largest family of mutual funds, the Waddell & Reed Advisors Group of Mutual Funds in 1940. Investment management fees, a substantial source of our revenues, 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. Underwriting and distribution revenues, another substantial source of revenues, consist of commissions derived from sales of investment and insurance products, Rule 12b-1 asset-based service and distribution fees, distribution fees on certain variable products, fees earned on fee-based asset allocation products, and related advisory services. The products sold have various commission structures and the revenues received from product sales vary based on the type and amount sold.

We operate our business through three distinct distribution channels. Our retail products are distributed through our sales force of registered financial advisors (the "Advisors channel") or through third-parties such as other broker/dealers, registered investment advisors (including the retirement advisors of the Legend group of subsidiaries ("Legend")) and various retirement platforms, (the "Wholesale channel"). We also market our investment advisory services to institutional investors, either directly or through consultants (the "Institutional channel").

In the Advisors channel, our sales force consists of more than 2,250 financial advisors who focus their efforts primarily on the sale of investment products advised by the Company. The Advisors channel's primary market is middle income and mass affluent individuals, families and businesses across the country, which is largely underserved and is in need of financial advice and guidance. We compete primarily with smaller broker/dealers and independent financial advisors, as well as a span of other financial providers. Our sales force garners assets for us to manage by utilizing a financial planning approach which focuses on the long-term goals of their customers and builds loyal relationships. This approach requires lower costs to acquire assets and yields redemption rates well below those of the industry, thereby enhancing the profitability of the channel. Assets in this channel were $29.9 billion at December 31, 2006.

Our Wholesale channel efforts include retail fund distribution through broker/dealers (the largest method of distributing mutual funds for the industry), registered investment advisors (fee-based financial advisors who generally sell mutual funds through financial supermarkets) and retirement (401(k) platforms using multiple managers). Assets in this channel were $10.8 billion at the end of 2006.

Through our Institutional channel we manage assets for defined benefit plans, pension plans and endowments. We also serve as a subadvisor to other investment companies. Assets in this channel were $7.7 billion at December 31, 2006.

Organization

We operate our investment advisory business through our subsidiary companies, primarily Waddell & Reed Investment Management Company ("WRIMCO"), a registered investment adviser. Other investment advisory subsidiaries include Ivy Investment Management Company ("IICO"), a registered investment adviser for Ivy Funds, Inc. and the Ivy Funds portfolios (collectively, the "Ivy Funds"), Legend Advisory Corporation, a registered investment adviser for Legend and Austin, Calvert & Flavin, Inc.

("ACF"). As of December 31, 2006, we had a total of $48.4 billion in assets under management and approximately 2.9 million mutual fund shareholder accounts.

Our underwriting and distribution business operates through three broker/dealers: Waddell & Reed, Inc. ("W&R"), Ivy Funds Distributor, Inc. ("IFDI") and Legend Equities Corporation ("LEC"). W&R is a registered broker/dealer and a registered investment adviser that acts primarily as the national distributor and underwriter for shares of our Waddell and Reed Advisors Group of Mutual Funds (the "Advisors Funds") and the distributor of variable annuities and other insurance products issued by Nationwide Life Insurance Company, a subsidiary of Nationwide Financial Services, Inc. ("Nationwide"), Minnesota Life Insurance Company ("Minnesota Life"), a subsidiary of Securian Financial Group, Inc. ("Securian"), and others. In addition, W&R is the third largest distributor of our Ivy Funds. IFDI, a registered broker/dealer, is the distributor and underwriter for the Ivy Funds. LEC is the registered broker/dealer for Legend, a mutual fund distribution and retirement planning subsidiary based in Palm Beach Gardens, Florida. Through its network of over 500 financial advisors, Legend serves primarily employees of school districts and other not-for-profit organizations.

Waddell & Reed Services Company ("WRSCO") provides transfer agency and accounting services to the Advisors Funds, the Ivy Funds, W&R Target Funds, Inc. (the "Target Funds") and Waddell & Reed InvestEd Portfolios, Inc., our college savings plan ("InvestEd"). W&R, WRIMCO, WRSCO, ACF, Legend, IICO and IFDI are hereafter collectively referred to as the "Company," "we," "us" or "our" unless the context requires otherwise.

The following series of tables, including Average Assets Under Management, Changes in Assets Under Management, Ending Assets Under Management by Broad Asset Class and Five Largest Mutual Funds by Ending Assets Under Management and Investment Management Fees, provide data that should be helpful in understanding the Company's business and should be referred to while reading the discussions that follow the tables.

Average Assets Under Management

The following table provides information regarding the composition of our average assets under management by distribution channel and asset class for the last three years.

	2006		2005		2004	
	Average	Percentage of Total	Average	Percentage of Total	Average	Percentage of Total
			(in millions)			
Distribution Channel:						
Advisors Channel						
Equity	$23,821	84%	21,051	82%	19,322	80%
Fixed income	3,901	14%	3,947	15%	3,962	17%
Money market	798	2%	684	3%	759	3%
Total	$28,520	100%	25,682	100%	24,043	100%
Wholesale Channel						
Equity	$ 8,499	95%	5,181	93%	3,751	92%
Fixed income	344	4%	325	6%	283	7%
Money market	70	1%	58	1%	59	1%
Total	$ 8,913	100%	5,564	100%	4,093	100%
Institutional Channel						
Equity	$ 7,120	92%	7,589	92%	7,514	92%
Fixed income	624	8%	619	8%	680	8%
Money market	—	—	—	—	—	—
Total	$ 7,744	100%	8,208	100%	8,194	100%
Total by Asset Class:						
Equity	$39,440	87%	33,821	86%	30,587	84%
Fixed income	4,869	11%	4,891	12%	4,925	14%
Money market	868	2%	742	2%	818	2%
Total	$45,177	100%	39,454	100%	36,330	100%

Change in Assets Under Management

The following table summarizes the changes in our assets under management for the last three fiscal years. All sales are net of commissions. The activity 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.

	Advisors Channel	Wholesale Channel	Institutional Channel	Total
		(in millions)		
December 31, 2006				
Beginning Assets	$27,187	6,729	7,947	41,863
Sales (net of commissions)	3,216	4,541	968	8,725
Redemptions	(3,325)	(1,915)	(1,748)	(6,988)
Net Sales	(109)	2,626	(780)	1,737
Net Exchanges	(194)	185	—	(9)
Reinvested Dividends and Capital Gains	232	16	111	359
Net Flows	(71)	2,827	(669)	2,087
Market Appreciation	2,789	1,263	399	4,451
Ending Assets	$29,905	10,819	7,677	48,401
December 31, 2005				
Beginning Assets	$25,297	4,702	8,659	38,658
Sales (net of commissions)	2,406	2,347	654	5,407
Redemptions	(3,060)	(1,149)	(2,121)	(6,330)
Net Sales	(654)	1,198	(1,467)	(923)
Net Exchanges	(88)	78	—	(10)
Reinvested Dividends and Capital Gains	161	13	114	288
Net Flows	(581)	1,289	(1,353)	(645)
Market Appreciation	2,471	738	641	3,850
Ending Assets	$27,187	6,729	7,947	41,863
December 31, 2004				
Beginning Assets	$24,337	3,805	8,431	36,573
Sales (net of commissions)	2,219	1,376	1,276	4,871
Redemptions	(3,405)	(1,015)	(1,733)	(6,153)
Net Sales	(1,186)	361	(457)	(1,282)
Net Exchanges	(93)	48	36	(9)
Reinvested Dividends and Capital Gains	182	20	137	339
Net Flows	(1,097)	429	(284)	(952)
Market Appreciation	2,057	468	512	3,037
Ending Assets	$25,297	4,702	8,659	38,658

Ending Assets Under Management by Broad Asset Class

The following table summarizes our ending assets under management by broad asset class, many of which incorporate multiple investment styles, as of December 31, 2006.

	2006	
	Ending	Percentage of Total
	(in millions)	
Investment Style:		
Narrowly Diversified	$ 8,694	18%
Large Capitalization Core Equities	6,703	14%
Large Capitalization Growth Equities	6,474	13%
Balanced & Flexible	6,352	13%
International Equities	4,289	9%
Small Capitalization Growth Equities	4,138	9%
Taxable Investment Grade Fixed Income	2,619	6%
Value Equities	2,139	4%
Multi-Capitalization Core Equities	2,019	4%
Middle Capitalization Growth Equities	1,536	3%
High Yield Fixed Income	1,282	3%
Tax Exempt Fixed Income	1,066	2%
Money Market	998	2%
Other	92	0%
Total	$48,401	100%

Five Largest Mutual Funds by Ending Assets Under Management and Investment Management Fees

The following table summarizes our five largest mutual funds as of December 31, 2006 by ending assets under management and investment management fees for the last three years. The assets under management and management fees of our five largest mutual funds are presented as a percentage of our total assets under management and total management fees.

	2006		2005		2004	
	Ending	Percentage of Total	Ending	Percentage of Total	Ending	Percentage of Total
			(in millions)			
By Assets Under Management:						
Ivy Global Natural Resources	$ 4,519	9%	2,469	6%	893	2%
Advisors Core Investment	4,155	9%	4,054	10%	4,233	11%
Advisors Science & Technology	2,521	5%	2,502	6%	2,286	6%
Advisors Accumulative	2,019	4%	2,032	5%	2,050	5%
Ivy Asset Strategy	2,008	4%	312	1%	89	0%
Total	$ 15,222	31%	11,369	28%	9,551	24%
			(in thousands)			
By Management Fees:						
Ivy Global Natural Resources (1)	$ 31,454	10%	14,612	5%	3,252	1%
Advisors Core Investment	25,635	8%	25,646	10%	26,698	11%
Advisors Science & Technology	20,676	7%	19,291	7%	17,779	7%
Advisors Accumulative	13,359	4%	13,521	5%	13,697	6%
Advisors Vanguard	12,253	4%	12,095	5%	12,580	5%
Total	$103,377	33%	85,165	32%	74,006	30%

(1) For the years ending December 31, 2006, 2005 and 2004, $15.8 million, $4.9 million and $1.1 million, respectively, is included in subadvisory fees in the Consolidated Statement of Operations, for fees paid to Mackenzie Financial Corporation for subadvisory services. The subadvisory agreement with Mackenzie Financial Corporation expires in 2007 and is renewable on an annual basis.

Investment Management Operations

Our investment advisory business provides one of our largest sources of revenues and profits. We earn investment management fee revenues by providing investment advisory and management services pursuant to an investment management agreement with each fund within the Advisors Funds family, the Ivy Funds families, the Target Funds family, and InvestEd, (collectively, the "Funds"). While the specific terms of the agreements vary, the basic terms are similar. The agreements provide that we render overall investment management services to each of the Funds, subject to the oversight of each Fund's board of directors/trustees and in accordance with each Fund's fundamental investment objectives and policies. The agreements permit us to enter into separate agreements for shareholder services or accounting services with each respective Fund.

Each Fund's board of directors/trustees, including a majority of the directors/trustees who are not "interested persons" of the Fund or the Company within the meaning of the Investment Company Act of 1940, as amended (the "ICA") ("disinterested members") and the Fund's shareholders must approve the investment management agreement between the respective Fund and the Company. These agreements may continue in effect from year to year if specifically approved at least annually by (i) the Fund's board, including a majority of the disinterested members, or (ii) the vote of a majority of the shareholders of the Fund and the vote of a majority of the disinterested members of each Fund's board, each vote being cast in person at a meeting called for such purpose. Each agreement automatically terminates in the event of its assignment, as defined by the ICA or the Investment Advisers Act of 1940, as amended, (the "Advisers Act"), and may be terminated without penalty by any Fund by giving us 60 days' written notice if the termination has been approved by a majority of the Fund's directors/trustees or the Fund's shareholders. We may terminate an investment management agreement without penalty on 120 days' written notice.

In addition to performing investment management services for the Funds, we act as an investment adviser for institutional and other private investors and we provide subadvisory services to other investment companies. For our services as an investment adviser, we receive a fee that is generally based on a percentage of assets under management. Such services are provided pursuant to various written agreements.

Our investment management effort has a strong foundation based upon its people and resources. We have 64 total investment professionals and a team of 29 portfolio managers who average 19 years of industry experience and 13 years of tenure with the Company. Many of our portfolio managers have had extensive experience as investment research analysts prior to acquiring portfolio management assignments. They have substantial resources available to them, including the efforts of internal equity and fixed income analysts who conduct primary fundamental research, including numerous on and off-site meetings annually with management of the companies in which they invest. In addition, we use research provided by brokerage firms and independent outside consultants. Portfolio managers participate in a collaborative process that blends their individual accountability with the ideas of their peers which, when backed by an intensive research capability, supports our efforts to deliver consistent, long-term performance. Our investment management team also includes a premier group of subadvisors who bring similar investment philosophies and additional expertise in specific asset classes.

We have significant experience in virtually all major asset classes, several specialized asset classes and a range of investment styles. Our investment strategy generally emphasizes investments in companies that the portfolio managers believe can produce above average growth in earnings. Our portfolio managers also strive for consistent long-term performance while seeking to provide downside protection in turbulent markets.

Our investment philosophy lends itself well to the financial planning approach used by our Advisors channel while our consistent long-term investment performance record supports the distribution efforts in both our Wholesale and Institutional channels. Our Advisors channel's focus is on financial planning, providing clients with advice and in-depth financial planning services. As a result of this approach, our Advisors channel has developed a loyal customer base with clients maintaining their accounts for approximately ten years on average as compared to approximately five years for the mutual fund industry, as derived from statistics provided by the Investment Company Institute ("ICI"). This loyalty is evidenced by a relatively low redemption rate in the Advisors channel for the year ended December 31, 2006 of 9.2%, which is considerably lower than the industry average of 20.1%. Our Wholesale channel is focused on offering our Funds for sale through third-party distribution outlets. Our Institutional channel has built assets based on a solid reputation for good performance and on our unwavering investment style which, over time, have yielded steady and consistent results.

Investment Management Products

Our mutual fund families offer a wide variety of investment options. We are the exclusive underwriter and distributor of 72 registered open-end mutual fund portfolios, including 22 portfolios in the Advisors Funds family, 26 portfolios in the Ivy Funds families, 21 portfolios in the Target Funds family and three portfolios in InvestEd. The Advisors Funds, variable products offering the Target Funds and InvestEd are offered primarily through our financial advisors and Legend retirement advisors; in limited circumstances, certain Advisors Funds, Target Funds and InvestEd are also offered through the Wholesale channel. The

Ivy Funds are offered through both our Wholesale channel and Advisors channel. The Funds' assets under management are included in either our Advisors channel or our Wholesale channel depending on who marketed the client account or is the broker of record.

Other Products

Pursuant to general agency arrangements with Nationwide and Minnesota Life, we distribute their variable annuity products, which offer the Target Funds as an investment vehicle. We also offer our customers retirement and life insurance products underwritten by Nationwide and Minnesota Life. Through our insurance agency subsidiaries, our financial advisors also sell life insurance and disability products underwritten by various carriers through a general agency arrangement with BISYS Insurance Services, Inc.

In addition, we offer asset allocation products, Strategic Portfolio Allocation ("SPA") and Managed Allocation Portfolio ("MAP"), which are comprised of our Funds. Using a variety of funds ranging from money market and fixed income funds to domestic and international equity funds, SPA is a predictive, dynamic asset allocation system that reallocates the asset classes within model portfolios. Clients investing in SPA can choose from five available model portfolios with objectives ranging from conservative to aggressive, based on their investment objectives, goals, risk tolerance and other factors. MAP, a fee-based mutual fund asset allocation program, is structured to provide advisors and clients with advisory services, a pricing option competitive with other firms' fee-based products, and flexibility to allow advisors to assist clients in selecting underlying funds based upon their individual needs. A primary difference between SPA and MAP is that advisors assist clients in selecting the underlying mutual funds within MAP models in accordance with pre-established ranges, whereas for SPA, the Company's Investment Policy Committee determines the model compositions.

Underwriting and Distribution

We earn underwriting and distribution fee revenues primarily by distributing the Funds pursuant to an underwriting agreement with each Fund (except the Target Funds as explained below) and, to a lesser extent, by distributing mutual funds offered by other companies not affiliated with us. Under each underwriting agreement, we offer and sell the Funds' shares on a continuous basis (open-end funds) and pay certain costs associated with underwriting and distributing the Funds, including the costs of developing and producing sales literature and printing of prospectuses, which may be either partially or fully reimbursed by the Funds. The Funds are sold in various classes that are substantially structured in ways that conform to industry standards (*i.e.*, "front-end load," "back-end load," "level-load" and institutional).

When a client purchases Class A 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 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. Class A shares purchased at net asset value are assessed a 1% contingent deferred sales charge ("CDSC") if the shares are redeemed within 12 months of purchase. When a client purchases Class B shares (back-end load), we do not charge an initial sales charge, but we do charge a CDSC upon early redemption of shares, up to 5% of the lesser of the current market net asset value or the purchase cost of the redeemed shares in the first year and declining to zero for shares held for more than six years. Class B shares convert to Class A shares after eight years. When a client purchases Class C shares (level-load), we do not charge an initial sales charge, but we do charge investors who redeem their Class C shares in the first year a CDSC of 1% of the lesser of the current market net asset value or the purchase cost of the shares redeemed.

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 as compensation or reimbursement 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. 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 as compensation or reimbursement to broker/dealers and other sales professionals for their services in connection with distributing shares of that class. The Rule 12b-1 plans are subject to annual approval by the Funds' board of directors/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 plan at any time with approval of fund directors or portfolio shareholders (a majority of either) without penalty.

We distribute variable products offering the Target Funds as investment vehicles pursuant to general agency arrangements with Nationwide and Minnesota Life. Commissions, marketing allowances and other compensation are paid to us as stipulated by such agreements. In connection with these arrangements, the Target Funds are offered and sold on a continuous basis.

In addition to distributing variable products, we distribute a number of other insurance products through our insurance agency subsidiaries, including individual term life, group term life, whole life, accident and health, long-term care, Medicare supplement and disability insurance. We receive commissions and compensation from various underwriters for distributing these products. We are not an underwriter for any insurance policies.

Distribution Channels

We distribute our investment products through our Advisors channel, our Wholesale channel and our Institutional channel.

Advisors Channel

Our advisors sell investment products primarily to middle-income and mass affluent individuals, families and businesses across the country in geographic markets of all sizes. We assist clients on a wide range of financial issues with a significant focus on helping them plan, generally, for long-term savings such as retirement and education. We provide financial planning services for clients, offering one-on-one consultations that emphasize long-term relationships through continued service. We believe that we are well positioned to benefit from the industry trend of "assisted sales" (sales of investment products through an advisor) driven by the array of options now available to investors and the need for financial planning advice. We believe that demographic trends and an increasing recognition of the importance of having adequate retirement savings will continue to support increased consumer demand for our products and services.

Our sales force consisted of 2,255 financial advisors, including 156 district managers and 165 district supervisors as of December 31, 2006. Eight regional vice presidents and 108 managing principals (formerly division managers) manage this sales force, which operates out of 189 offices located throughout the United States. In addition, we have 372 individual advisor offices. We believe, based on industry data, that our financial advisors are currently one of the largest sales forces in the United States selling primarily mutual funds, and that W&R, our broker/dealer subsidiary, ranks among the largest independent broker/dealers.

For the year ended December 31, 2006, our financial advisors sold approximately $3.2 billion of investment products. As of December 31, 2006, our Advisors channel had approximately 657,000 mutual fund customers with an average investment of $52,000 and approximately 82,000 variable account customers with an average investment of $55,000.

As of December 31, 2006, 40% of our financial advisors have been with us for more than five years and 25% for more than ten years. Our New Advisor Career Transition program(s) designed to meet the needs of the different audiences from which we recruit such as college graduates, career changers and industry experienced professionals, provide our new advisors with a unique transition experience until they can develop the skills and client base necessary to earn a stable income from commissions. The new transition programs have played an important role in advisor retention and have contributed to an increase in the average productivity of our new associates.

A number of initiatives were undertaken in 2005 to increase sales, improve productivity and enhance field office support. These initiatives included providing our field managers and advisors with home office resources to help provide assistance with recruiting, training, compliance and product support. Enhanced education and product support is also being provided to our financial advisors through additional wholesaling efforts. In addition, recent procedures to centralize some of the compliance responsibilities at the enterprise level have resulted in less burden on our field leaders related to administrative responsibilities, allowing them more time to focus on recruiting activity, training and increasing sales. The introduction of a Sales Incentive Dashboard to the Advisors channel in 2007 will make it easier for field leaders and advisors to keep track of their sales results daily with web based sales data. Sales trends confirm that our efforts are gaining traction and appear to have created a solid platform for continued improvement. Sales per advisor (investment product sales divided by the average number of advisors) were $994 thousand, $776 thousand and $709 thousand, for the years ended December 31, 2006, 2005 and 2004, respectively.

Gross production per advisor, an additional method of measuring advisor productivity, is a measure which better reflects the activities of the advisor and is more closely aligned with industry standard methods of using gross commissions per sales representative to measure productivity. For purposes of this measure, gross production consists of front-end load sales and distribution fee revenues, as it would be received from an underwriter, from sales of both our Funds and other mutual funds. In addition, it includes fee revenues from our asset allocation products and financial plans, and commission revenues earned on insurance products. This measure excludes underwriting fee revenues, Rule 12b-1 service fee revenues, variable annuity distribution fee revenues and all revenues related to Class Y shares, all of which do not relate to the distribution activities of our financial advisors. Gross production per advisor was $61.8 thousand, $53.5 thousand and $52.8 thousand for the years 2006, 2005 and 2004, respectively.

Wholesale Channel

Our Wholesale channel consists of those sales that are garnered through various third-party distribution outlets and through Legend retirement advisors. In an effort to accelerate sales growth, we have focused on expanding our Wholesale distribution efforts over the past four years. Our launch into this channel included acquiring Mackenzie Investment Management Inc. (“MIMI”) in 2002 and entering into a strategic alliance agreement with Securian in 2003. MIMI was a Florida-based investment management subsidiary of Toronto-based Mackenzie Financial Corporation (“MFC”) and adviser of the Ivy Funds sold in the United States. As part of our strategic alliance with Securian, we agreed to become investment adviser on substantially all equity assets managed by Advantus Capital Management, Inc. (“Advantus”), a subsidiary of Securian and an affiliate of Minnesota Life, and to acquire the assets of Securian’s Advantus funds.

As a result of an increased demand for our funds in our Wholesale channel, market appreciation and assets gained through acquisitions, our assets under management from the Wholesale channel have increased from $3.8 billion at December 31, 2003 to $10.8 billion at December 31, 2006. This channel’s ending assets includes $5.8 billion in assets that are subadvised by other managers.

During 2006, we achieved significant traction in sales of our mutual funds through wholesale distribution. We continued to expand our team of national wholesalers, reaching a total of 26 by year-end. Throughout 2006, the Ivy Funds family increased its presence in a number of broker/dealer platforms. These third parties have a client relationship with, and maintain an account for, the investors. Typically, investors purchase our investment products at the suggestion of third parties, thereby expanding our opportunities to gain new investors. Our efforts focus principally on distributing the Ivy Funds through three segments: broker/dealer (the largest method of distributing mutual funds for the industry), retirement (401(k) platforms using multiple managers) and registered investment advisors (fee-based financial advisors who generally sell institutional class mutual funds through financial supermarkets). We have established an important presence in the wholesale market.

Legend retirement advisors distribute our Funds, along with mutual funds managed by other investment companies, through Legend's retirement advisor sales force. At December 31, 2006, Legend had 509 registered retirement advisors in 100 Legend offices, which are primarily individual advisor offices, located mainly in the eastern part of the United States. These retirement advisors are not included in the discussion of our financial advisors, nor in disclosures of the number of advisors we have licensed. For the years ended December 31, 2006, 2005 and 2004, Legend retirement advisors sold $74.0 million, $67.7 million and $54.7 million of our mutual funds, respectively. For the years ended December 31, 2006, 2005 and 2004, Legend also sold $382.5 million, $379.7 million and $347.4 million, respectively, of mutual funds offered by other companies not affiliated with us. Sales per Legend retirement advisor were $897 thousand in 2006. Legend had $4.7 billion of client assets under administration as of December 31, 2006.

Institutional Channel

WRIMCO and ACF market their investment advisory services directly to institutions or through consultants which assist with the manager selection process. Most of our institutional business is in defined benefit pension plans, and a significant amount of assets are managed for defined contribution pension plans, foundations, endowments, Taft-Hartley plans, high-net worth individuals and insurance company general accounts. During the past two years, our institutional asset flows were negatively impacted by a combination of underperformance at ACF and a block of client assets moving to an alternative investment. We maintain a solid reputation in the institutional asset management business, built on a good performance record and on our investment style, which over time has brought steady and consistent results.

Over the past five years, we have expanded our distribution efforts in this channel by entering into additional subadvisory agreements with certain strategic partners. As part of the December 16, 2002 acquisition of MIMI's business, we entered into new subadvisory and marketing agreements extending MFC's subadvisory agreements with IICO and providing us with additional investment management opportunities in Canada. Pursuant to these subadvisory agreements, we receive investment management fees covering multiple funds. The subadvisory agreement with MFC expires in 2007 and is renewable on an annual basis.

Through our strategic alliance agreement with Securian, we agreed to become investment adviser for substantially all equity assets managed by Advantus. In addition, the Company manages as separate accounts certain actively managed equities in the Minnesota Life and Securian Holding Company general accounts.

Service Agreements

We earn service fee revenues by providing various services to the Funds and their shareholders pursuant to shareholder servicing and accounting service agreements with each Fund. Pursuant to the shareholder servicing agreements, we perform shareholder servicing functions for which the Funds pay us a monthly fee, including: maintaining shareholder accounts; issuing, transferring, and redeeming shares; distributing dividends and paying redemptions; furnishing information related to the Funds; and handling shareholder inquiries. Pursuant to the accounting service agreements, we provide the Funds with bookkeeping and accounting services and assistance for which the Funds pay us a monthly fee, including: maintaining the Funds' records; pricing Fund shares; and preparing prospectuses for existing shareholders, proxy statements and certain other shareholder reports.

Shareholder servicing and accounting service agreements with the Funds may be adopted or amended with the approval of the disinterested members of each Fund's board of directors/trustees. Each of the shareholder servicing and accounting service agreements have annually renewable terms of one year.

Regulation

The securities industry is subject to extensive regulation covering all aspects of the securities business. Virtually all aspects of our business are subject to various federal and state laws and regulations. These laws and regulations are primarily intended to protect investment advisory clients and shareholders of registered investment companies. Under such laws and regulations, agencies and organizations that regulate investment advisers, broker/dealers, and transfer agents like us have broad administrative powers, including the power to limit, restrict or prohibit an investment adviser, broker/dealer or transfer agent from carrying on its business in the event that it fails to comply with applicable laws and regulations. In such event, the possible sanctions that may be imposed include, but are not limited to, the suspension of individual employees or agents, limitations on engaging in certain lines of business for specified periods of time, censures, fines and the revocation of investment adviser and other registrations.

The Securities and Exchange Commission (the "SEC") is the federal agency responsible for the administration of the federal securities laws. Certain of our subsidiaries are registered with the SEC as investment advisers under the Advisers Act. The Advisers Act imposes numerous obligations on registered investment advisers including, among other things, fiduciary duties, record-keeping and reporting requirements, operational requirements and disclosure obligations, as well as general anti-fraud prohibitions. Investment advisers are subject to periodic examination by the SEC, and the SEC is authorized to institute proceedings and impose sanctions for violations of the Advisers Act, ranging from censure to termination of an investment adviser's registration.

Our Funds are registered as investment companies with the SEC under the ICA, and various filings are made with states under applicable state rules and regulations. The ICA regulates the relationship between a mutual fund and its investment adviser and prohibits or severely restricts principal transactions and joint transactions. Various regulations cover certain investment strategies that may be used by the Funds for hedging and/or speculative purposes. To the extent the Funds purchase futures contracts, options on futures contracts and foreign currency contracts, they are subject to the commodities and futures regulations of the Commodity Futures Trading Commission.

The Company is also subject to federal and state laws affecting corporate governance, including the Sarbanes-Oxley Act of 2002 ("S-OX"), as well as rules adopted by the SEC. As a New York Stock Exchange (the "NYSE") listed company, we are also subject to the rules of the NYSE, including the corporate governance listing standards approved by the SEC.

We derive a large portion of our revenues from investment management agreements. Under the Advisers Act, our investment management agreements terminate automatically if assigned without the client's consent. Under the ICA, investment advisory agreements with registered investment companies such as the Funds terminate automatically upon assignment. The term "assignment" is broadly defined and includes direct assignments, as well as assignments that may be deemed to occur, under certain circumstances, upon the transfer, directly or indirectly, of a controlling interest in the Company.

Three of our subsidiaries, W&R, LEC and IFDI, are also registered as broker/dealers with the SEC and the states. Much of the regulation of broker/dealers has been delegated by the SEC to self-regulatory organizations, principally the Municipal Securities Rulemaking Board and the National Association of Securities Dealers (the "NASD"). The NASD is the primary regulator of our broker/dealer activities. These self-regulatory organizations adopt rules (subject to approval by the SEC) that govern the industry and conduct periodic examinations of our operations over which they have jurisdiction. Securities firms are also subject to regulation by state securities administrators in those states in which they conduct business. Broker/dealers are subject to regulations that cover all aspects of the securities business, including sales practices, market making and trading among broker/dealers, the use and safekeeping of clients' funds and securities, capital structure, record-keeping, and the conduct of directors, officers and employees. Violation of applicable regulations can result in the revocation of broker/dealer licenses, the imposition of censures or fines, and the suspension or expulsion of a firm, its officers or employees.

W&R, LEC and IFDI are also each subject to certain net capital requirements pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Uniform Net Capital Rule 15c3-1 of the Exchange Act (the "Net Capital Rule") specifies the minimum level of net capital a registered broker/dealer must maintain and also requires that part of its assets be kept in a relatively liquid form. The Net Capital Rule is designed to ensure the financial soundness and liquidity of broker/dealers. Any failure to maintain the required minimum net capital may subject us to suspension or revocation of our registration or other limitations on our activity by the SEC, and suspension or expulsion by the NASD or other regulatory bodies, and ultimately could require the broker/dealer's liquidation. The maintenance of minimum net capital requirements may also limit our ability to pay dividends. As of December 31, 2006, 2005 and 2004 our net capital for W&R, LEC and IFDI exceeded all minimum requirements.

Pursuant to the requirements of the Securities Investor Protection Act of 1970, W&R and LEC are members of the Securities Investor Protection Corporation ("SIPC"). IFDI is not a member of the SIPC. The SIPC provides protection against lost, stolen or missing securities (but not loss in value due to a rise or fall in market prices) for clients in the event of the failure of a broker/dealer. Accounts are protected up to $500,000 per client with a limit of $100,000 for cash balances. However, since the Funds, and not our broker/dealer subsidiaries, maintain customer accounts, SIPC protection would not cover mutual fund shareholders.

On October 26, 2001, President Bush signed the USA PATRIOT Act, aimed at giving the government new powers in the war on terrorism. Title III of this new legislation, the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001, imposes significant new anti-money laundering requirements on all financial institutions, including domestic banks and domestic operations of foreign banks, broker/dealers, futures commission merchants and investment companies.

In 2004, we implemented compliance with Section 404 of S-OX. Our related report on internal controls over financial reporting for 2006 is included in Part I, Item 9A.

Additional legislation and regulations, including those relating to the activities of investment advisers, broker/dealers and transfer agents, changes in rules imposed by the SEC or other United States or foreign regulatory authorities and self-regulatory organizations, or changes in the interpretation or enforcement of existing laws and rules may adversely affect our business and profitability. A finding that one of our registered subsidiaries has failed to comply with applicable SEC or broker/dealer regulations could have a material adverse effect on us. Our businesses may be materially affected not only by regulations applicable to us as an investment adviser, broker/dealer or transfer agent, but also by law and regulations of general application. For example, the volume of our principal investment advisory business in a given time period could be affected by, among other things, existing and proposed tax legislation and other governmental regulations and policies (including the interest rate policies of the Federal Reserve Board), and changes in the interpretation or enforcement of existing laws and rules that affect the business and financial communities.

Competition

The financial services industry is highly competitive and has increasingly become a global industry. According to the ICI, there are approximately 8,500 open-end investment companies of varying sizes, investment policies and objectives whose shares are being offered to the public in the United States. We face substantial competition in all aspects of our business. Factors affecting our business include brand recognition, business reputation, investment performance, quality of service and the continuity of both client relationships and assets under management. Competition is based on the methods of fund share distribution, the type and quality of shareholder services, the success of marketing efforts and the ability to develop investment products for certain market segments, to meet the changing needs of investors, and to achieve competitive investment management performance.

We compete with hundreds of other mutual fund management, distribution and service companies that distribute their fund shares through a variety of methods, including affiliated and unaffiliated sales forces, broker/dealers and direct sales to the public of shares offered at a low or no sales charge. Many larger mutual fund complexes have large advertising budgets and established relationships with brokerage houses with large distribution networks, which enable these fund complexes to reach broad client bases. We compete with a large number of investment management firms offering services and products similar to ours, as well as other independent financial advisors. In addition, we compete with brokerage and investment banking firms, insurance companies, commercial banks and other financial institutions and businesses offering other financial products in all aspects of their businesses. Although no single company or group of companies consistently dominates the mutual fund management and services industry, many are larger than us, have greater resources and offer a wider array of financial services and products. We believe that competition in the mutual fund industry will increase as a result of increased flexibility afforded to banks and other financial institutions to sponsor mutual funds and distribute mutual fund shares. In addition, barriers to entry into the investment management business are relatively few, and thus, we face a potentially growing number of competitors, especially during periods of strong financial and economic markets. Many of our competitors in the mutual fund industry are larger, better known, have penetrated more markets and have more resources than us.

The distribution of mutual funds and other investment products has undergone significant developments in recent years, which has intensified the competitive environment in which we operate. These developments include the introduction of new products (including hedge funds and exchange traded funds), increasingly complex distribution systems with multiple classes of shares, the development of Internet websites providing investors with the ability to invest on-line, the introduction of sophisticated technological platforms used by financial advisors to sell and service mutual funds for their clients, the introduction of separately managed accounts—previously available only to institutional investors—to individuals, and growth in the number of mutual funds offered. We believe our business model targets customers seeking personal assistance from financial advisors or planners where the primary competition is companies distributing products through a financial advisor or broker/dealer sales force. Our financial advisors compete primarily with large and small broker/dealers, independent financial advisors and insurance representatives. The market for financial planning and advice is extremely fragmented, consisting primarily of relatively small companies with fewer than 100 investment professionals. Competition is based on sales techniques, personal relationships and skills, and the quality of financial planning products and services offered.

In recent years, there have been a number of investment companies that offer their products available for sale on the Internet for no front-end sales charges. The effects of this sales technique are not particularly apparent in our business. Our market is that of clients seeking personal assistance through a financial advisor, whereas purchasing products directly through the Internet is considered more appropriate for "do-it-yourself" investors. We view the Internet as a useful communication tool that does not replace the benefits of a personalized financial advisor. It is not our intent to make no-load funds available for sale through the Internet; however, in limited situations, the Internet is available to our customers for the purchase of our products.

We also face competition in attracting and retaining qualified financial advisors and employees. The ability to continue to compete effectively in our business depends in part on our ability to compete effectively in the labor market. In order to maximize this ability, we offer competitive compensation, a wide range of benefits and have several stock-based compensation incentive programs.

Intellectual Property

We regard our names as material to our business, and have registered certain service marks associated with our business with the United States Patent and Trademark Office.

Employees and Financial Advisors

At December 31, 2006, we had 1,606 full-time employees, consisting of 862 home office employees, 141 employees of subsidiary companies in Florida and Texas, 108 managing principals, eight regional vice presidents, 156 field office support personnel, and 321 district managers and district supervisors; district managers and supervisors are counted as both employees and financial advisors.

At December 31, 2006, our sales force was comprised of 2,255 financial advisors, including 1,934 financial advisors who are independent contractors and 321 district managers and district supervisors who are considered employees. In addition, Legend, which is a part of our Wholesale channel, had 509 retirement advisors considered to be independent contractors.

Available Information

We file reports, proxy statements, and other information with the SEC, copies of which can be obtained from the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

Reports we file electronically with the SEC via the SEC's Electronic Data Gathering, Analysis and Retrieval system ("EDGAR") may be accessed through the Internet. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, at *www.sec.gov*. The Company makes available free of charge our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K and amendments to those reports under the "Corporate" section of our internet website at *www.waddell.com* as soon as it is reasonably practical after such filing has been made with the SEC.

Also available under the "Corporate" section is information on corporate governance. Stockholders have the ability to view our Corporate Code of Business Conduct and Ethics (the "Code of Ethics"), which applies to directors, officers, and all employees of the Company; our Corporate Governance Guidelines; and the charters of key committees (including the Audit, Compensation and Nominating and Corporate Governance Committees). Printed copies of these documents are available to any stockholder upon request by calling the investor relations department at 1-800-532-2757. Any future amendments to or waivers of the Code of Ethics will be posted to our website.

ITEM 1A. Risk Factors

Regulatory Risk Is Substantial In Our Business. Non-Compliance With Regulations Or Changes In Regulations Could Have A Significant Impact On The Conduct Of Our Business And Our Prospects, Revenues And Earnings. Our investment management and broker/dealer businesses are heavily regulated, primarily at the federal level. Non-compliance with applicable laws or regulations could result in sanctions being levied against us, including fines and censures, suspension or expulsion from a certain jurisdiction or market, or the revocation of licenses. Non-compliance with applicable laws or regulations could also adversely affect our reputation, prospects, revenues and earnings. In addition, changes in current legal, regulatory, accounting, tax or compliance requirements or in governmental policies could adversely affect our operations, revenues and earnings by, among other things, increasing expenses and reducing investor interest in certain products we offer.

In response to recent scandals in the mutual fund industry regarding late trading, market timing and selective disclosure of portfolio information, various legislative and regulatory proposals are pending in or before, or have been adopted by, the SEC, the United States Congress, the legislatures in states in which we conduct operations and the various regulatory agencies that supervise our operations. Additionally, the SEC, the NASD and other regulators, are investigating certain practices within the mutual fund industry. These proposals, if enacted or adopted, could have a substantial impact on the regulation, operation and distribution of mutual funds, and could adversely affect our ability to distribute and retain the assets we manage and our revenues and net income. In particular, new rules and regulations recently proposed or adopted by the SEC and NASD will place greater regulatory compliance and administrative burdens on us. For example, recently adopted rules require investment advisers and mutual funds to adopt, implement, review and administer written policies and procedures reasonably designed to prevent violation of the federal securities laws. Similarly, the public disclosure requirements applicable to mutual funds have become more stringent. We may require additional staff to satisfy these obligations, which would increase our operating expenses.

Fee Pressures Could Reduce Our Revenues And Profitability. There is a trend toward lower fees in some segments of the investment management business. In addition, the SEC has adopted rules that are designed to improve mutual fund corporate governance, which could result in further downward pressure on investment advisory fees in the mutual fund industry. Accordingly, there can be no assurance that we will be able to maintain our current fee structure. Fee reductions on existing or future new business could have an adverse impact on our revenues and profitability.

There May Be Adverse Effects On Our Revenues And Earnings If Our Funds' Performance Declines. Success in the investment management and mutual fund businesses is dependent on the investment performance of client accounts relative to market conditions and the performance of competing funds. Good relative performance stimulates sales of the Funds' shares and tends to keep redemptions low. Sales of the Funds' shares in turn generate higher management fees and distribution revenues. Good relative performance also attracts institutional and separate accounts. Conversely, poor relative performance results in decreased sales, increased redemptions of the Funds' shares and the loss of institutional and separate accounts, resulting in decreases in revenues. Failure of our Funds to perform well could, therefore, have a material adverse effect on our revenues and earnings.

An Increasing Percentage Of Our Assets Under Management Are Distributed Through Our Wholesale Channel Which Reflects Higher Redemption Rates Than Our Traditional Advisors Channel. In recent years we have focused on expanding distribution efforts relating to our Wholesale channel. The percentage of our assets under management in our Wholesale channel has increased from 10.4% at December 31, 2003 to 22.4% at December 31, 2006, and the percentage of our total sales represented by the Wholesale channel has increased from 16.5% for the year ended December 31, 2003 to 52.0% for the year ended December 31, 2006. The success of sales in our Wholesale channel depends upon our maintaining strong relationships with institutional accounts, certain strategic partners and our non-proprietary sales outlets. Many of those distribution sources also offer investors competing funds that are internally or externally managed, which could limit the distribution of our products. The loss of any of these distribution channels and the inability to continue to access new distribution channels could decrease our assets under management and adversely affect our results of operations and growth. We cannot assure you that these channels and their client bases will continue to be accessible to us. The loss or diminution of the level of business we do with those providers could have a material adverse effect on our business, especially with the higher concentration of assets in certain funds in this channel. In addition, the Wholesale channel had redemption rates of 21.0% and 20.3% for the years ended December 31, 2006 and 2005, respectively, compared to redemption rates of 9.2% and 9.6% for our Advisors channel in the same periods reflecting the higher rate of transferability of investment assets in the Wholesale channel.

There May Be An Adverse Effect On Our Revenues And Earnings If Our Investors Remove The Assets We Manage On Short Notice. A majority of our revenues are derived from investment management agreements with the Funds that, as required by law, are terminable on 60 days' notice. Each investment management agreement must be approved and renewed annually by the disinterested members of each Fund's board of directors/trustees or its shareholders, as required by law. Some of these investment management agreements may be terminated or may not be renewed, and new agreements may not be available. In addition, mutual fund investors may redeem their investments in our mutual funds at any time without any prior notice. Our investment management agreements with institutions and other non-mutual fund accounts are generally terminable upon relatively short notice. Investors can terminate their relationship with us, reduce their aggregate amount of assets under management, or shift their funds to other types of accounts with different rate structures for any number of reasons, including investment performance, changes in prevailing interest rates and financial market performance. The ability of our investors to accomplish this on short notice has increased materially due to the growth of assets in our Wholesale channel, and with the concentration of assets in certain funds in this channel. The decrease in revenues that could result from any such event could have a material adverse effect on our business and earnings.

There Is No Assurance That New Information Systems Will be Implemented Successfully. A number of the Company's key information technology systems were developed solely to handle the Company's particular information technology infrastructure. The Company is in the process of evaluating and implementing new information technology and systems that it believes could facilitate and improve our core businesses and our productivity. There can be no assurance that the Company will be successful in implementing the new information technology and systems or that their implementation will be completed in a timely or cost effective manner.

There May Be Adverse Effects Of The Termination Or Failure To Renew Certain Agreements. A majority of the Company's revenues are derived from investment management agreements with the Funds that, as required by law, are terminable on 60 days' notice. Each such investment management agreement must be approved and renewed annually by disinterested members of each Funds' board of directors/trustees or its shareholders, as required by law. In addition, the Company has co-exclusive arrangements with Nationwide and Minnesota Life/Securian to distribute their variable annuities containing the Target Funds managed by the Company, which are currently set to expire in the fall of 2008. There can be no assurances that these contracts will be renewed on favorable terms, if at all, at their expiration. In addition, failure to renew the Securian arrangement could have an adverse impact on the strategic alliance agreement with Securian whereby we manage equity assets for their asset management affiliates. Finally, our subadvisory agreement with MFC expires in 2007. There can be no assurances that this agreement will be renewed on favorable terms, if at all. See "Business—Distribution Channels—Wholesale Channel, Institutional Channel."

Our Financial Advisors Are Classified As Independent Contractors, And Changes To Their Classification Costs May Increase Our Operating Expenses. From time to time, various legislative or regulatory proposals are introduced at the federal or state levels to change the status of independent contractors' classification to employees for either employment tax purposes (withholding, social security, Medicare and unemployment taxes) or other benefits available to employees. Currently, most individuals are classified as employees or independent contractors for employment tax purposes based on 20 "common law" factors, rather than any definition found in the Internal Revenue Code or Internal Revenue Service regulations. We classify the majority of our financial advisors as independent contractors for all purposes, including employment tax and employee benefit purposes. There can be no assurance that legislative, judicial, or regulatory (including tax) authorities will not introduce proposals or assert interpretations of existing rules and regulations that would change the employee/independent contractor classification of those financial advisors currently doing business with us. The costs associated with potential changes, if any, with respect to these independent contractor classifications could have a material adverse effect on the Company, including our results of operations and financial condition if we were unable to reflect them in our compensation arrangements with the financial advisors.

New Regulations Restricting The Use Of "Soft Dollars" Could Result In An Increase In Our Expenses. On behalf of our mutual fund and investment advisory clients, we make decisions to buy and sell securities for each portfolio, select broker/dealers to execute trades, and negotiate brokerage commission rates. In connection with these transactions, we may receive "soft dollar credits" from broker/dealers that we can use to defray certain of our expenses. If regulations are adopted eliminating the ability of asset managers to use "soft dollars," our operating expenses could increase.

Our Ability To Hire And Retain Senior Executive Management And Other Key Personnel Is Significant To Our Success And Growth. Our continued success depends to a substantial degree on our ability to attract and retain qualified senior executive management and other key personnel to conduct our broker/dealer, fund management and investment advisory businesses. The market for qualified fund managers, investment analysts and financial advisors is extremely competitive. Additionally, we are dependent on our financial advisors and select wholesale distributors to sell our mutual funds and other investment products. Our growth prospects will be directly affected by the quality, quantity and productivity of financial advisors we are able to successfully recruit and retain. There can be no assurances that we will be successful in our efforts to recruit and retain the required personnel.

Our Business Is Subject To Substantial Risk From Litigation, Regulatory Investigations And Potential Securities Laws Liability. Many aspects of our business involve substantial risks of litigation, regulatory investigations and/or arbitration, and from time to time, we are involved in various legal proceedings in the course of operating our business. The Company is exposed to liability under federal and state securities laws, other federal and state laws and court decisions, as well as rules and regulations promulgated by the SEC, the NASD and other regulatory bodies. We, our subsidiaries, and/or certain of our past and present officers, have been named as parties in legal actions, regulatory investigations and proceedings, and securities arbitrations in the past and have been subject to claims alleging violation of such laws, rules and regulations, which have resulted in the payment of fines and settlements. An adverse resolution of any lawsuit, legal or regulatory proceeding or claim against us could result in substantial costs or reputational harm to the Company, and have a material adverse effect on the Company's business, financial condition or results of operations, which, in turn, may negatively affect the market price of our Class A common stock ("common stock") and our ability to pay dividends. In addition to these financial costs and risks, the defense of litigation or arbitration may divert resources and management's attention from operations.

Our Revenues, Earnings And Prospects Could Be Adversely Affected If The Securities Markets Decline. Our results of operations are affected by certain economic factors, including the level of the securities markets. The existence of adverse market conditions (which is particularly material to us due to our high concentration of assets under management in the United States domestic stock market) and lack of investor confidence could result in investors withdrawing from the markets or decreasing their rate of investment, either of which could adversely affect our revenues, earnings and growth prospects. Because our revenues are, to a large extent, investment management fees that are based on the value of assets under management, a decline in the value of these assets adversely affects our revenues and earnings. Our growth is dependent to a significant degree upon our ability to attract and retain mutual fund assets, and, in an adverse economic environment, this may prove difficult. Our growth rate has varied from year to year and there can be no assurance that the average growth rates sustained in the recent past will continue. In addition, a decline in the market value of these assets could cause our clients to withdraw funds in favor of investments they perceive as offering greater opportunity or lower risk, which could also negatively impact our revenues and earnings. The combination of adverse markets reducing sales and investment management fees could compound on each other and materially affect earnings.

We Could Experience Adverse Effects On Our Revenues, Profits And Market Share Due To Strong Competition From Numerous And Sometimes Larger Companies. We compete with stock brokerage firms, mutual fund companies, investment banking firms, insurance companies, banks, Internet investment sites, and other financial institutions and individual registered investment advisers. Many of these companies not only offer mutual fund investments and services, but also offer an ever-increasing number of other financial products and services. Many of our competitors have more products and product lines, services and brand recognition and may also have substantially greater assets under management. Many larger mutual fund complexes have developed relationships with brokerage houses with large distribution networks, which may enable those fund complexes to reach broader client bases. In recent years, there has been a trend of consolidation in the mutual fund industry resulting in stronger competitors with greater financial resources than us. There has also been a trend toward online Internet financial services. If existing or potential customers decide to invest with our competitors instead of with us, our market share, revenues and income could decline.

The Terms Of Our Credit Facility Impose Restrictions On Our Operations That May Adversely Impact Our Prospects And The Operations Of Our Business. There are no assurances we will be able to raise additional capital if needed, which could negatively impact our liquidity, prospects and operations. We have entered into a three-year revolving credit facility with various lenders providing for total loans of $200.0 million. Under this facility, the lenders may, at their option upon our request, expand the facility to $300.0 million. We also utilize money market loans, which function similarly to commercial paper. At February 23, 2007, there was no balance outstanding under either the revolving credit facility or the money market loan program. The terms and conditions of our revolving credit facility and the money market loans impose restrictions that affect, among other things, our ability to incur additional debt, make capital expenditures and acquisitions, merge, sell assets, pay dividends and create or incur liens. Our ability to comply with the financial covenants set forth in our credit facility could be affected by events beyond our control, and there can be no assurance that we will achieve operating results that will comply with such terms and conditions, a breach of which could result in a default under our credit facility. In the event of a default, the banks could elect to declare the outstanding principal amount of our credit facility, all interest thereon, and all other amounts payable under our credit facility to be immediately due and payable.

Our ability to meet our cash needs and satisfy our debt obligations will depend upon our future operating performance, asset values, the perception of our creditworthiness and, indirectly, the market value of our stock. These factors will be affected by prevailing economic, financial and business conditions and other circumstances, some of which are beyond our control. We anticipate that any borrowings from our existing credit facility, money market loans and/or cash provided by operating activities will provide sufficient funds to finance our business plans, meet our operating expenses and service our debt obligations as they become due. However, in the event that we require additional capital, there can be no assurance that we will be able to raise such capital when needed or on satisfactory terms, if at all, and there can be no assurance that we will be able to renew or refinance our credit facility upon its maturity or on favorable terms. If we are unable to raise capital or obtain financing, we may be forced to incur unanticipated costs or revise our business plan.

Systems Failure May Disrupt Our Business And Result In Financial Loss And Liability To Our Clients. Our business is highly dependent on financial, accounting and other data processing systems and other communications and information systems, including our mutual fund transfer agency system maintained by a third-party service provider. We process a large number of transactions on a daily basis and rely upon the proper functioning of computer systems of third parties. If any of these systems do not function properly, we could suffer financial loss, business disruption, liability to clients, regulatory intervention or damage to our reputation. If our systems are unable to accommodate an increasing volume of transactions, our ability to expand could be affected. Although we have back-up systems in place, we cannot be sure that any systems failure or interruption, whether caused by a fire, other natural disaster, power or telecommunications failure, acts of terrorism or war or otherwise will not occur, or that back-up procedures and capabilities in the event of any failure or interruption will be adequate.

Potential Misuse Of Funds And Information In The Possession Of Our Employees And/Or Advisors Could Result In Liability To Our Clients And Subject Us To Regulatory Sanctions. Our financial advisors handle a significant amount of funds for our clients as well as financial and personal information. Although we have implemented a system of controls to minimize the risk of fraudulent taking or misuse of funds and information, there can be no assurance that our controls will be adequate or that a taking or misuse by our employees or financial advisors can be prevented. We could be liable in the event of a taking or misuse by our employees or financial advisors and we could also be subject to regulatory sanctions. Although we believe that we have adequately insured against these risks, there can be no assurance that our insurance will be maintained or that it will be adequate to meet any liability.

There Are No Assurances That We Will Pay Future Dividends Which Could Adversely Affect Our Stock Price. The Waddell & Reed Financial, Inc. Board of Directors (the "Board of Directors") currently intends to continue to declare quarterly dividends on our common stock; however, the declaration and payment of dividends is subject to the discretion of our Board of Directors. Any determination as to the payment of dividends, as well as the level of such dividends, will depend on, among other things, general economic and business conditions, our strategic plans, our financial results and condition, and contractual, legal, and regulatory restrictions on the payment of dividends by us or our subsidiaries. We are a holding company and, as such, our ability to pay dividends is subject to the ability of our subsidiaries to provide us with cash. There can be no assurance that the current quarterly dividend level will be maintained or that we will pay any dividends in any future period(s). Any change in the level of our dividends or the suspension of the payment thereof could adversely affect our stock price.

Our Stockholders Rights Plan Could Deter Takeover Attempts Which Some Of Our Stockholders May Believe To Be In Their Best Interest. Under certain conditions, the rights under our stockholders rights plan entitle the holders of such rights to receive shares of our common stock having a value equal to two times the exercise price of the right. The rights are attached to each share of our outstanding common stock and generally are exercisable only if a person or group acquires 15% or more of the voting power represented by our common stock. Our stockholders rights plan could impede the completion of a merger, tender offer, or other takeover attempt even though some or a majority of our stockholders might believe that a merger, tender offer or takeover is in their best interests, and even if such a transaction could result in our stockholders receiving a premium for their shares of our stock over the then current market price of our stock.

Provisions Of Our Organizational Documents Could Deter Takeover Attempts Which Some Of Our Stockholders May Believe To Be In Their Best Interest. Under our Certificate of Incorporation, our Board of Directors has the authority, without action by our stockholders, to fix certain terms and issue shares of our Preferred Stock, par value $1.00 per share. Actions of our Board of Directors pursuant to this authority may have the effect of delaying, deterring or preventing a change in control of the Company. Other provisions in our Certificate of Incorporation and in our Bylaws impose procedural and other requirements that could be deemed to have anti-takeover effects, including replacing incumbent directors.

Our Board of Directors is divided into three classes, each of which is to serve for a staggered three-year term after the initial classification and election, and incumbent directors may not be removed without cause, all of which may make it more difficult for a third party to gain control of our Board of Directors. In addition, as a Delaware corporation we are subject to section 203 of the Delaware General Corporation Law. With certain exceptions, section 203 imposes restrictions on mergers and other business combinations between us and any holder of 15% or more of our voting stock.

Our Holding Company Structure Results In Structural Subordination And May Affect Our Ability To Fund Our Operations And Make Payments On Our Debt. We are a holding company and, accordingly, substantially all of our operations are conducted through our subsidiaries. As a result, our cash flow and our ability to service our debt, including $200 million of our senior notes, are dependent upon the earnings of our subsidiaries and the distribution of earnings, loans or other payments by our subsidiaries to us. Our subsidiaries are separate and distinct legal entities and have no obligation to pay any amounts due on our debt or provide us with funds for our payment obligations, whether by dividends, distributions, loans or other payments. In addition, any payment of dividends, distributions, loans or advances to us by our subsidiaries could be subject to statutory or contractual restrictions. Payments to us by our subsidiaries will also be contingent upon our subsidiaries' earnings and business considerations. Our right to receive any assets of any of our subsidiaries upon their liquidation or reorganization, and therefore the right of the holders of our debt to participate in those assets, would be effectively subordinated to the claims of those subsidiaries' creditors, including trade creditors. In addition, even if we were a creditor of any of our subsidiaries, our rights as a creditor would be effectively subordinate to any security interest in the assets of our subsidiaries and any indebtedness of our subsidiaries senior to that held by us.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

Our home offices lease approximately 350,000 square feet for Waddell & Reed, Legend, and ACF located in Overland Park, Kansas, Palm Beach Gardens, Florida, and San Antonio, Texas, respectively. This figure does not include office space of 41,000 square feet formerly leased by MIMI in Boca Raton, Florida, which has been sublet. In addition, we lease office space for financial advisors and sales management in various locations throughout the United States totaling approximately 610,000 square feet. In the opinion of management, the office space leased by the Company is adequate for existing operating needs.

ITEM 3. Legal Proceedings

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

ITEM 4. Submission of Matters to a Vote of Security Holders

During the fourth quarter of the fiscal year covered by this report, no matter was submitted to a vote of the Company's security holders, through the solicitation of proxies or otherwise.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our Class A common stock ("common stock") is traded on the NYSE under the ticker symbol "WDR." The following table sets forth, for the periods indicated, the reported high and low sale prices of our common stock, as reported by the NYSE, as well as the cash dividends paid for these time periods:

Market Price

	2006			2005		
Quarter	High	Low	Dividends Per Share	High	Low	Dividends Per Share
1.	$23.60	$20.57	$0.15	$24.09	$19.01	$0.15
2.	24.80	19.65	0.15	19.98	16.51	0.15
3.	25.05	19.23	0.15	20.25	18.38	0.15
4.	27.80	23.97	0.15	22.33	18.13	0.15

Year-end closing prices of our common stock for 2006 and 2005, respectively were: $27.36 and $20.97. The closing price of our common stock on February 23, 2007 was $25.73.

According to the records of our transfer agent, we had 4,225 holders of record of common stock as of February 23, 2007. We believe that a substantially larger number of beneficial stockholders hold such shares in depository or nominee form.

Dividends

The declaration of dividends is subject to the discretion of the Board of Directors. We intend, from time to time, to pay cash dividends on our common stock as our Board of Directors deems appropriate, after consideration of our operating results, financial condition, cash and capital requirements, compliance with covenants in our revolving credit facility and such other factors as the Board of Directors deems relevant. Our current credit facility does not limit our ability to pay cash dividends. To the extent assets are used to meet minimum net capital requirements under the Net Capital Rule, they are not available for distribution to stockholders as dividends. See Part I, Item 1. "Business—Regulation."

The Board of Directors approved an increase in the quarterly dividend on our common stock from $.15 per share to $.17 per share beginning with our second quarter 2007 dividend, payable on May 1, 2007. We anticipate that quarterly dividends will continue to be paid.

Common Stock Repurchases

Our Board of Directors has authorized the repurchase of our common stock in the open market and/or private purchases. The acquired shares may be used for corporate purposes, including shares issued to employees in our stock-based compensation programs. During the year ended December 31, 2006, we repurchased (i) 1,139,116 shares in the open market and in private purchases at an aggregate cost, including commissions, of $27.7 million, (ii) 6,933 mature shares from stock incentive plan participants to cover the strike price of options exercised in connection with a Stock Option Restoration Program (the "SORP"), (iii) 477 newly issued shares from SORP participants to cover their statutory minimum tax withholdings on option exercises, and (iv) 238,045 shares from related parties to cover their tax withholdings from the vesting of nonvested shares. The aggregate cost of shares obtained from related parties during 2006 was $5.6 million. The purchase price paid by us for private repurchases of our common stock from related parties is the closing market price on the purchase date.

The following table sets forth certain information about the shares of common stock we repurchased during the fourth quarter of 2006.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under The Program
October 1 - October 31	105,626	$24.94	105,626	n/a (1)
November 1 - November 30	100,301	24.95	100,301	n/a (1)
December 1 - December 31	34,069	27.36	34,069	n/a (1)
Total	239,996	$25.29	239,996	

(1) On August 31, 1998, we announced that our Board of Directors approved a program to repurchase shares of our common stock on the open market. Under the repurchase program, we are authorized to repurchase, in any seven-day period, the greater of (i) 3% of our outstanding common stock or (ii) $50 million of our common stock. We may repurchase our common stock through the New York Stock Exchange, other national or regional market systems, electronic communication networks or alternative trading systems such as POSIT, during regular or after-hours trading sessions. POSIT is an alternative trading system that uses passive pricing to anonymously match buy and sell orders. To date, we have not used electronic communication networks or alternative trading systems to repurchase any of our common stock and do not intend to use such networks or systems in the foreseeable future. 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 July 2004. During the fourth quarter of 2006, all stock repurchases were made pursuant to the repurchase program including 34,996 shares that were purchased in connection with funding employee income tax withholding obligations arising from the vesting of nonvested shares.

ITEM 6. Selected Financial Data

The following table sets forth our selected consolidated financial and other data at the dates and for the periods indicated. Selected financial data should be read in conjunction with, and is qualified in its entirety by, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements and the Notes thereto appearing elsewhere in this report.

	For the Year Ended December 31,				
	2006 (1)	2005 (2)	2004	2003 (3)	2002 (4)
	(in thousands, except per share data and number of financial advisors)				
Revenues from:					
Investment management fees	$ 311,525	267,681	240,282	203,918	186,038
Underwriting and distribution fees	317,458	272,590	252,883	231,662	240,473
Shareholder service fees	89,672	81,809	76,522	70,678	65,690
Total revenues	718,655	622,080	569,687	506,258	492,201
Net income	46,112	60,121	102,165	54,265	87,425
per common share—basic	0.57	0.74	1.27	0.67	1.09
per common share—diluted	0.55	0.73	1.25	0.66	1.07
Dividends per common share	$ 0.60	0.60	0.60	0.57	0.53
Advisor and productivity data (excluding Legend):					
Investment product sales (5)	$2,276,405	1,901,356	1,811,960	1,796,244	2,008,599
Number of financial advisors (end of period)	2,255	2,409	2,623	2,929	3,466
Average number of financial advisors	2,290	2,453	2,556	3,049	3,198
Investment product sales per advisor	$ 994	776	709	589	628
Wholesale channel data:					
Sales (net of commissions)	$4,541,812	2,346,749	1,375,222	932,600	443,042
Number of wholesalers	26	23	19	15	7
Institutional channel sales	$ 968,106	654,333	1,276,614	2,388,881	933,732

	As of December 31,				
	2006	2005	2004	2003	2002
			(in millions)		
Assets under management	$ 48,401	41,863	38,658	36,573	28,115
Balance sheet data:					
Goodwill and identifiable intangible assets	228.4	250.3	250.3	250.1	216.7
Total assets	662.7	632.3	619.9	565.8	560.5
Short-term debt	—	1.7	35.0	25.0	58.0
Long-term debt	199.9	198.2	202.9	209.7	213.1
Total liabilities	418.0	384.9	401.0	390.4	411.2

(1) Includes a pre-tax charge of $55.0 million ($39.4 million net of tax) to recognize our settlement with the SEC, New York Attorney General and Kansas Securities Commissioner related to market-timing allegations; a charge of $20.0 million (not deductible for income tax purposes) to recognize the impairment of goodwill associated with ACF; charges associated with the resolution of the Williams excessive fee litigation; expenses related to prior regulatory settlements; and a pre-tax charge of $1.9 million ($1.3 million net of tax) related to employee separation costs at ACF in response to a decline in investment performance and related loss of assets under management, all recorded in 2006.

(2) Includes pre-tax charges totaling $47.4 million ($30.8 million net of tax) recorded during 2005 related to settlements of outstanding legal matters with Torchmark for actions in Alabama, California and

Kansas, a settlement with the NASD and a consortium of states relating to variable annuity sales practices; separation of employment payments to our former chief executive officer; a NASD arbitration settlement with a former financial advisor; and other employee separation payments related to the restructuring of the Advisors channel.

(3) Includes a pre-tax charge of $32.0 million ($21.5 million net of tax) in 2003 for estimated damages and legal costs in connection with the UILIC litigation, an NASD sales practice exam and ongoing disputes with former sales personnel in our Advisors channel and a pre-tax charge of $27.1 million ($17.2 million net of tax) related to a stock option tender offer during 2003.

(4) For 2002, includes a pre-tax write-down of $7.1 million ($4.4 million net of tax) for other than temporary decline in the value of certain investment securities and a $2.0 million ($1.3 million net of tax) charge for damages awarded in an NASD arbitration case with a former financial advisor.

(5) Investment product sales are commissionable sales by our financial advisors, shown gross of commissions, and do not include mutual funds sold at net asset value or sales of other wholesale mutual funds or insurance products.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Item includes statements that are "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, including statements regarding our expectations, hopes, beliefs, intentions or strategies regarding the future. All statements, other than statements of historical fact, included in this Form 10-K regarding our financial position, business strategy and other plans and objectives for future operations, are forward-looking statements. All forward-looking statements included in this Form 10-K are based on information available to us on the date hereof, and we assume no obligation to update such forward-looking statements. Although we believe that the assumptions and expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct or that we will take any actions that may presently be planned. Certain important factors that could cause actual results to differ materially from our expectations are disclosed in the "Risk Factors" section of this Form 10-K, which include, without limitation, the adverse effect from a decline in securities markets or a decline in our products' performance, failure to renew investment management agreements, adverse results of litigation and/or arbitration, acts of terrorism and/or war, competition, changes in government regulation, and availability and terms of capital. All subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by such factors.

The following should be read in conjunction with the "Selected Financial Data" and our Consolidated Financial Statements and Notes thereto appearing elsewhere in this report.

Executive 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. Significant increases or decreases in the various securities markets, particularly United States equity markets, can have a material impact on our results of operations, financial condition and cash flows.

Our Distribution Channels

One of our distinctive qualities is that we are a significant distributor of investment products, conducting our business in three channels: the Advisors channel, the Wholesale channel and the Institutional channel.

In the Advisors channel, we have a network of more than 2,250 financial advisors providing personal financial planning services to our clients across the United States, focusing on investment strategies for retirement, education funding, insurance, estate planning and other specific needs.

In our Wholesale channel, we distribute retail mutual funds through broker/dealers, registered investment advisors, including Legend, our Florida-based retirement planning subsidiary and various retirement platforms.

In our Insititutional channel, our efforts include defined benefit plans, pension plans, endowments, subadvisory relationships and high net worth clients.

Revenue Sources

We derive our revenues primarily from providing investment management, distribution and administrative services to the Funds and institutional and separately managed accounts. Investment management fees, a substantial source of our revenues, 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. Underwriting and distribution revenues, another substantial source of revenues, consist of commissions derived from sales of investment and insurance products, distribution fees on certain variable products, and fees earned on fee-based asset allocation products, as well as advisory services. The products sold have various commission structures and the revenues received from product sales vary based on the type and amount sold. Rule 12b-1 service and distribution fees earned for servicing and/or distributing certain mutual fund shares are based upon assets under management and fluctuate based on sales, redemptions and financial market conditions. Other service fees include transfer agency fees, custodian fees for retirement plan accounts and portfolio accounting.

2006 in Review

- All material outstanding legal and regulatory issues have been resolved.
- Earnings declined due to charges associated with litigation and regulatory settlements and a goodwill impairment charge.
- Assets under management were up 16% to $48.4 billion, driven by a combination of organic growth and market action.
- Ivy Funds gross sales ranked among the top 25 at each of the five largest wirehouses in the United States.
- Advisors channel productivity and net sales continue to improve.
- Operating margin adjusted for special charges showed a slight decline.
- Common stock value was up 30% over the prior year.

These topics are discussed in more detail in the sections that follow.

Key Developments

Litigation and Regulatory Settlements

During 2006, we recorded a charge of $55.0 million related to settlement with the SEC, the New York Attorney General and the Kansas Securities Commission regarding market timing allegations, $12.0 million of which represented non-deductible penalties. In addition, effective October 1, 2006, the Company instituted an annual $5.0 million investment management fee waiver pursuant to the New York Attorney General settlement by adjusting management fee rates on certain funds.

On May 30, 2006, the investment advisor and underwriter subsidiaries of the Company for the Ivy Funds were dismissed from the Williams Excessive Fee case with prejudice. On September 25, 2006 the remainder of this case was dismissed with prejudice. The negotiations and discussions leading up to, and the terms of, the dismissal are confidential.

During 2006, all remaining restitution related to settlements of outstanding litigation including matters with the Enforcement Department of NASD Regulation and Torchmark Corporation ("Torchmark") was paid and the matter was resolved. During the third quarter of 2006, the Arbitration Panel adjudicating the Torchmark matter related to state taxes ruled against the Company and determined that the Company owed Torchmark $7.4 million. A reserve previously established largely covered this exposure.

ACF Goodwill Impairment and Restructuring Charge

We recorded a goodwill impairment charge of $20.0 million related to our subsidiary, ACF. Factors that led to this conclusion included, but were not limited to, the negative impact of the continued decline in ACF's assets under management and diminished involvement of ACF's investment staff in mutual fund advisory responsibilities during the second quarter of 2006. Continued asset redemptions have placed significant risk on ACF's ability to achieve and maintain profitability, and therefore have adversely impacted its earnings potential. We also recorded a restructuring charge of $1.9 million at ACF for employee separation costs, in response to a decline in investment performance and related loss of assets under management.

Approval for Increase to Quarterly Dividend

The Board of Directors approved an increase in the quarterly dividend on our common stock from $.15 per share to $.17 per share beginning with our second quarter 2007 dividend, payable on May 1, 2007.

Results of Operations

Net Income

Net income decreased 23% in 2006 to $46.1 million, or $0.55 per diluted share, compared to $60.1 million, or $0.73 per diluted share for the same period in 2005. This decrease was due to current year legal and regulatory settlements as well as goodwill impairment and restructuring charges related to our subsidiary, ACF.

Net income decreased 41% in fiscal 2005 to $60.1 million, or $0.73 per diluted share, compared to $102.2 million, or $1.25 per diluted share for the same period in 2004. The decrease in 2005 was due to legal and regulatory settlements, costs related to the separation of employment of our former chief executive officer and severance and restructuring costs in our Advisors channel.

	For the Year Ended December 31,			Variance	
	2006	2005	2004	2006 vs 2005	2005 vs 2004
	(in thousands, except percentage data)				
Net Income	$46,112	60,121	102,165	−23%	−41%
Earnings per share:					
Basic	$ 0.57	0.74	1.27	−23%	−42%
Diluted	$ 0.55	0.73	1.25	−25%	−42
Operating Margin	12%	17%	29%	NM	NM

Total Revenues

Total revenues increased 16% and 9% for the fiscal years 2006 and 2005, respectively, attributable to growth in average assets under management of 15% and 9% for the two years.

	For the Year Ended December 31,			Variance	
	2006	2005	2004	2006 vs 2005	2005 vs 2004
	(in thousands, except percentage data)				
Investment management fees	$311,525	267,681	240,282	16%	11%
Underwriting and distribution fees	317,458	272,590	252,883	16%	8%
Shareholder service fees	89,672	81,809	76,522	10%	7%
Total revenues	$718,655	622,080	569,687	16%	9%

Investment Management Fee Revenues

Investment management fee revenues are earned for providing investment advisory services to the Funds and to institutional and separate accounts. Investment management fee revenues increased $43.8 million, or 16%, in 2006 and $27.4 million, or 11%, in 2005.

Revenues from investment management services provided to our retail mutual funds, which are distributed through the Advisors and the Wholesale channels, increased $46.2 million, or 21%, in 2006 compared to 2005, while the related retail average assets increased 20%. Revenues from investment management services provided to our retail mutual funds, increased $27.4 million, or 14%, in 2005 compared to 2004, while the related retail average assets increased 11%. Investment management fee revenues increased more than the related retail average assets due to significant sales growth in Ivy specialty funds, which tend to have higher management fee rates. Revenue was impacted by the decrease to management fee rates on certain funds in compliance with the New York Attorney General settlement that took place in the fourth quarter of 2006. This decrease to management fee rates will reduce management fees by approximately $5.0 million annually. Retail sales in 2006 and 2005 were $7.8 billion, and $4.8 billion, respectively, representing a 63% and 32% increase over sales in 2005 and 2004, respectively.

Institutional and separate account revenues were $41.3 million and $43.6 million in 2006 and 2005, respectively. The decrease in account revenues in 2006 was primarily attributable to ACF, based on a decline in their average assets by 42%. Institutional and separate account revenues in 2005 remained consistent with those recognized in 2004, as overall growth in assets under management during 2005 was constrained by the loss of one block of client assets moving to an alternative investment, and also performance driven outflows at ACF.

Long-term redemption rates (which exclude money market fund redemptions) in the Advisors channel improved to 9.2% in 2006 compared to 9.6% and 11.3% in 2005 and 2004, respectively. In the Wholesale channel, long-term redemption rates were 21.0% in 2006, an increase from 20.3% in 2005 and a decrease from the 2004 rate of 23.7%. The long-term redemption rate for our Institutional channel was 22.6% in 2006 compared to 25.8% in 2005 and 21.3% in 2004. The higher institutional redemption rate in 2006 compared to 2004 was a result of performance driven outflows at ACF. The elevated redemption rate in 2005, as mentioned earlier, is due to the loss of one block of client assets moving to an alternative investment as well as performance driven outflows at ACF. We expect the Advisors channel long-term redemption rate to remain lower than that of the Wholesale channel due to the personal and customized nature in which our financial advisors provide service to their clients.

Underwriting and Distribution Revenues and Expenses

The following table illustrates our underwriting and distribution fee revenues and expenses segregated by distribution channel for the years ended December 31, 2006, 2005 and 2004:

	Total				
	2006	2005	2004	2006 vs 2005	2005 vs 2004
	(in thousands, except percentage data)				
Revenue	$317,458	272,590	252,883	16%	8%
Expenses:					
Direct	244,454	202,162	179,753	21%	12%
Indirect	112,084	101,175	89,046	11%	14%
Total Expenses	356,538	303,337	268,799	18%	13%
Net Underwriting & Distribution	$ (39,080)	(30,747)	(15,916)	−27%	−93%

	Advisors Channel				
	2006	2005	2004	2006 vs 2005	2005 vs 2004
Revenue	$225,313	206,582	200,443	9%	3%
Expenses:					
Direct	154,580	141,102	132,371	10%	7%
Indirect	82,337	76,001	68,272	8%	11%
Total Expenses	236,917	217,103	200,643	9%	8%
Net Underwriting & Distribution	$ (11,604)	(10,521)	(200)	−10%	−5161%

	Wholesale Channel				
	2006	2005	2004	2006 vs 2005	2005 vs 2004
Revenue	$ 92,145	66,008	52,440	40%	26%
Expenses:					
Direct	89,874	61,060	47,382	47%	29%
Indirect	29,747	25,174	20,774	18%	21%
Total Expenses	119,621	86,234	68,156	39%	27%
Net Underwriting & Distribution	$ (27,476)	(20,226)	(15,716)	−36%	−29%

The Advisors channel is the primary source of underwriting and distribution revenue, given that a significant amount of Wholesale mutual fund sales are load-waived, with the exception of investment product sales by Legend retirement advisors. The majority of underwriting and distribution fee revenues are derived from sales commissions charged on front-end load products sold by our financial advisors that include mutual fund Class A shares (those sponsored by the Company and those underwritten by other non-proprietary mutual fund companies), variable annuities and financial planning fees. To a lesser extent, underwriting and distribution revenues are received from Rule 12b-1 asset-based distribution and service fees earned on both load and load-waived and deferred-load products sold by our financial advisors and third party intermediaries, asset-based fees earned on our asset allocation products, and commissions earned on the sale of other insurance products.

We divide the costs of underwriting and distribution into two components—direct costs and indirect costs. Direct selling costs fluctuate with sales volume, such as advisor commissions and commission overrides paid to field management, advisor incentive compensation, commissions paid to third parties and those paid to our own wholesalers, and related overrides in our Wholesale channel. Indirect selling costs are fixed costs that do not necessarily fluctuate with sales levels. Indirect costs include expenses incurred by our home office and field offices such as wholesaler salaries, marketing costs, promotion and distribution of our products through the Advisors and Wholesale channels, support and management of our financial advisors such as field office overhead, sales programs, technology infrastructure, and costs of managing and supporting our Wholesale efforts through technology infrastructure and personnel. While the Institutional channel does have marketing expenses, those expenses are accounted for in our compensation and related costs and general and administrative expense lines instead of underwriting and distribution because of the channel's integration with our investment management division and its relatively small size. We recover certain of our underwriting and distribution costs through Rule 12b-1 service and distribution fees, which are paid by the Funds. Rule 12b-1 service and distribution fees are received predominantly from the Advisors Funds Class A shares under a sales and servicing reimbursement plan agreement. This agreement allows reimbursement to us from the Advisors Funds Class A shares of certain Rule 12b-1 eligible expenses, not to exceed a maximum of 25 basis points of average daily net assets under management. We also have compensatory or reimbursement Rule 12b-1 service and/or distribution plans for the Ivy Funds, Target Funds, InvestEd, and Advisor Funds. All 12b-1 service and distribution fee revenue received from the Funds is recorded on a gross basis.

Underwriting and distribution revenues increased by $44.9 million, or 16%, when compared with the prior year. A majority of the increase in revenues was due to higher 12b-1 asset based service and distribution fees of $31.1 million as a result of an increase in average mutual fund assets under management. Underwriting revenue on front-load product sales sold in the Advisors channel contributed an additional $10.0 million in revenues due to higher sales during 2006. Higher point of sale commissions, advisory fees and 12b-1 service fee revenues earned by Legend added another $6.9 million in revenue compared to the prior year as their assets under administration increased.

Underwriting and distribution revenues in 2005 increased by $19.7 million, or 8%, when compared with 2004. Higher 12b-1 asset based service and distribution fees of $14.7 million represented a majority of the increase due to an increase in average mutual fund assets under management when compared to the prior year. Increased front-load product sales in the Advisors channel also contributed $2.8 million in additional revenue. Higher point of sale commissions, advisory fees and 12b-1 service fee revenues of $5.5 million earned by Legend were also realized due to an increase in their assets under administration. The revenue increases were offset by declines in commissions earned on insurance product sales of $2.8 million and fees earned on asset allocation products of $2.9 million due to a decline in assets invested in these products.

Underwriting and distribution expenses increased by $53.2 million, or 18%, when compared with the prior year. A majority of this increase was attributed to higher direct expenses in the Wholesale channel of

$28.8 million as a result of higher sales volume and an increase in average Wholesale assets under management. Specifically, higher 12b-1 asset based service and distribution expenses, additional dealer compensation paid to third party distributors, and higher commissions were paid to our wholesalers. Direct expenses in the Advisors channel increased $13.5 million due to an increase in point-of-sale commissions paid on front-load product sales and higher 12b-1 asset based service and distribution commissions paid. The increase in indirect expenses in the Advisors channel of $6.3 million was due to increased information technology, sales support and convention expenses. The indirect expenses increase of $4.6 million in the Wholesale channel was driven by higher costs associated with developing our non-proprietary distribution outlets.

Underwriting and distribution expenses in 2005 increased by $34.5 million, or 13%, when compared to 2004. This increase was split almost evenly amongst the two channels. Increased point-of-sale and 12b-1 asset based commissions made up $22.4 million of the increase on a combined channel basis due to both increases in product sales and average assets under management. The indirect expense increase in the Advisors channel of $7.7 million was the result of higher sales program costs, additional compensation for newly added home office positions to assist with advisor recruiting and development, and higher marketing program costs. Indirect expenses increased $4.4 million in the Wholesale channel as we continued our effort to develop non-proprietary distribution outlets in this channel.

Shareholder Service Fee Revenues

Shareholder service fee revenues primarily include transfer agency fees, custodian fees from retirement plan accounts, and portfolio accounting and administration fees. During 2006 and 2005, shareholder service fee revenue increased by 10% and 7%, respectively, due in part to an increase in the average number of shareholder accounts for which transfer agency fees are charged, growth in assets in shareholder accounts for which certain other fees are based, and to a change to the structure of portfolio asset based fees that are charged for accounting and administrative services provided to the Funds.

Transfer agency fees, which accounted for approximately 75% of total shareholder service fee revenue in both 2006 and 2005, are based on annual charges per shareholder account. Transfer agency fee revenue increases for 2006 and 2005 as compared to the prior years were $5.6 million and $4.0 million, respectively. These increases were in line with the average shareholder account growth of 10% and 7% for 2006 and 2005, respectively. The average number of shareholder accounts grew to 2.79 million in 2006 compared to 2.53 million in 2005, primarily due to the growth in sales in our Wholesale channel during 2006.

Total Operating Expenses

Operating expenses increased $111.2 million, or 21%, in 2006 compared to 2005 due to increased underwriting and distribution expenses, increased litigation-related charges recorded in general and administrative and an impairment charge related to goodwill recorded in the current year. Operating expenses increased $112.2 million, or 28%, in 2005 compared to 2004 due to increased underwriting and distribution expenses and litigation-related charges recorded in general and administrative expenses. Underwriting and distribution expenses are discussed above.

	For the Year Ended December 31,			Variance	
	2006	2005	2004	2006 vs 2005	2005 vs 2004
	(in thousands, except percentage data)				
Underwriting and distribution	$356,538	303,337	268,799	18%	13%
Compensation and related costs	110,101	99,673	83,099	10%	20%
General and administrative	100,604	87,029	38,357	16%	127%
Subadvisory fees	30,758	18,218	6,983	69%	161%
Depreciation	11,725	10,275	9,090	14%	13%
Goodwill impairment	20,000	—	—	NM	NM
Total operating expenses	$629,726	518,532	406,328	21%	28%

Compensation and Related Costs

Compensation and related costs in 2006 increased $10.4 million, or 10%, compared to 2005. During 2006, we incurred charges of $1.9 million (which included $1.5 million of share-based compensation expense) at ACF in response to a decline in investment performance and related loss of assets under management. Additionally, 2005 included $2.7 million in charges associated with the resignation of our former CEO. Excluding these charges, compensation and related costs increased by $11.2 million. Share-based compensation accounted for $4.8 million of this increase primarily due to higher amortization expense associated with our April 2006 grant of nonvested stock. The current year is the first year in which the expense from four years of grants (all with a four-year vesting period) is reflected in compensation and related costs. Additionally, base salaries and payroll taxes contributed $3.6 million to the increase, primarily due to an increase in headcount of 3.4% and annual merit increases during 2006. Incentive compensation increased $3.7 million during 2006, principally due to a change in the compensation structure for our CEO and investment performance incentives earned by our investment management division.

Compensation and related costs in 2005 increased $16.6 million, or 20%, compared to 2004. Excluding the 2005 charge of $2.7 million associated with the resignation of our former CEO, compensation and related costs increased $13.9 million. Base salaries and payroll taxes contributed $4.7 million to the increase, primarily due to an increase in headcount of 5.0% and annual merit increases during 2005. Incentive compensation increased $2.9 million during 2005, principally due to investment performance incentives earned by our investment management division. Share-based compensation in 2005 increased $5.3 million, compared to the prior year, primarily due to amortization of additional nonvested stock grants made in April of 2004 and 2005.

Share-based compensation, previously reported as a separate line item in the consolidated statement of operations, has been included in compensation and related costs for all periods presented.

General and Administrative Expenses

General and administrative expenses are operating costs other than those related to compensation and to distribution efforts, including, but not limited to, computer services and software costs, telecommunications, facilities costs of our home offices, costs of professional services including legal and accounting, and insurance.

General and administrative expenses increased \$13.6 million in 2006 compared to 2005. Both years included charges for legal settlements: \$55.0 million in 2006 for the settlement with the SEC and state regulators; \$35.0 million in 2005 for the settlement of outstanding legal matters with Torchmark for various actions and the NASD and a consortium of states relating to variable annuity sales practices; \$6.1 million in 2005 in additional expenses related to a settlement of an NASD arbitration case with a former advisor; and \$3.2 million in costs related to the resignation of our former chief executive officer. Excluding charges for litigation, regulatory and other matters, general and administrative expenses increased \$2.9 million compared to 2005. Higher costs for computer services contributed to the current year increase.

General and administrative expenses increased \$48.7 million in 2005 compared to 2004. This increase relates primarily to 2005 legal settlements and costs as previously mentioned of \$44.3 million. Excluding charges for litigation, regulatory and other matters, general and administrative expenses increased \$4.4 million compared to 2004. Higher costs for computer services and maintenance, facilities expansion, corporate insurance and legal all contributed to the increase.

Goodwill Impairment

In 2006, we recorded an impairment charge of \$20.0 million related to our subsidiary, ACF. Factors that led to this conclusion included, but were not limited to, the negative impact of the continued decline in ACF's assets under management and diminished involvement of ACF's investment staff in mutual fund advisory responsibilities during the second quarter of 2006. Continued asset redemptions placed significant risk on ACF's ability to achieve and maintain profitability, and therefore had adversely impacted its earnings potential.

Subadvisory Fees

Subadvisory fees represent fees paid to other asset managers for providing advisory services for certain mutual fund portfolios. These expenses reduce our operating margin since we pay out approximately half of our management fee revenue received from subadvised products. Our sales in the Wholesale channel broadened in 2006 to include a larger percentage of sales into our own managed products. The growth trend in the sales of our own managed products should help to improve our future operating margin.

Subadvisory expenses for the years ended 2006, 2005 and 2004 were \$30.8 million, \$18.2 million and \$7.0 million, respectively. Significant sales growth in our Wholesale channel throughout 2005 and 2006, particularly sales of our subadvised specialty mutual fund products, has driven increased expenses. As this expense is a function of sales, redemptions and market action for subadvised assets, a continuation of the growth trend for these assets would likely result in future increases to subadvisory expenses.

Other Income and Expenses

Investment and Other Income

Investment and other income for 2006 increased by \$5.8 million over the same period in the prior year, primarily reflecting increased interest on short-term commercial paper investments of \$3.3 million due to a combination of higher average balances and interest rates. We also recorded gains from the sale of available-for-sale securities of \$3.3 million. These increases were partially offset by a decrease in mutual fund trading portfolio returns of \$1.2 million during the year.

Investment and other income for 2005 increased by $1.1 million over the same period in the prior year, primarily reflecting increased interest on short-term commercial paper investments of $2.1 million due to a combination of higher balances and interest rates. Increased dividend income from mutual fund holdings of $0.5 million also contributed to the increase during 2005. A decline in income recorded on trading securities of $0.7 million, lower interest earned on corporate and municipal bonds of $0.5 million, and net losses from other investments of $0.3 million offset these increases.

Interest Expense

Interest expense decreased $2.1 million in 2006 compared to 2005, partially due to interest incurred on short-term borrowings in 2005 of $0.9 million. There were no short-term borrowings in 2006. In 2006, we refinanced $200 million in senior notes at a rate of 5.6%, compared to an average interest rate of 6.25% (including the benefit of our interest rate swap) in 2005, resulting in decreased 2006 interest expense of $1.2 million.

Interest expense increased $3.6 million, or 33%, to $14.3 million for 2005 compared to 2004, primarily reflecting an increase of $3.8 million from interest paid on our 7.50% senior notes due to higher variable rates paid on our interest rate swap. Average interest rates on these senior notes rose from 4.34% in 2004 to 6.25% during 2005 (including the benefit of our interest rate swap). This increase was offset by a decrease in interest paid on short-term money market loans of $0.2 million due to a decline in average borrowings for the year.

Income Taxes

Our effective income tax rate was 48.3%, 37.3% and 35.4% in 2006, 2005 and 2004, respectively. The effective tax rate in 2006 increased compared to 2005 primarily as a result of the non-deductible goodwill impairment charge, as well as non-deductible fines recorded during 2006. Our 2006 effective tax rate, removing the effect of these non-deductible charges and state tax incentives recorded in 2006, would have been 36.4%. This rate is more reflective of the Company's anticipated effective tax rate excluding any non-recurring non-deductible charges or any state incentives the Company may receive for future capital expenditures. The effective tax rate in 2005 increased compared to 2004 principally due to non-deductible fines recorded during 2005. The 2004 effective rate also benefited from a change in the assessment of the deductibility of certain charges recorded in 2003.

Liquidity and Capital Resources

The following table summarizes certain key financial data relating to our liquidity and capital resources:

	For the Year Ended December 31,			Variance	
	2006	2005	2004	2006 vs 2005	2005 vs 2004
	(in thousands, except percentage data)				
Balance Sheet Data:					
Cash and cash equivalents (1)	$196,516	162,775	83,900	21%	94%
Investment Securities	48,129	51,701	125,275	−7%	−59%
Short-term debt	—	1,746	35,000	NA	−95%
Long-term debt	199,942	198,230	202,899	1%	−2%
Cash Flow Data:					
Operating cash flows	99,559	104,222	114,685	−4%	−9%
Investing cash flows	(2,332)	66,140	(48,197)	−104%	237%
Financing cash flows	(63,486)	(91,487)	(54,054)	31%	−69%

(1) Includes reserves of $32.6 million, $26.1 million and $22.6 million held for the benefit of customers in compliance with federal securities regulations at December 31, 2006, 2005 and 2004, respectively.

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

- Finance internal growth
- Pay dividends
- Repurchase our stock

Finance Internal Growth

We use cash to fund growth in our distribution channels. Our Wholesale channel, which has a higher cost to gather assets, requires cash outlays for wholesaler commissions, payment to our distribution partners, and commissions to third parties on deferred load product sales. The growth we have experienced in our Wholesale channel also requires that we add additional resources and infrastructure to manage this growth. We also continue to invest in our Advisor channel by providing additional support to our advisors through training, wholesaling efforts, and enhanced technology tools.

Pay Dividends

We paid quarterly dividends on our common stock of $.15 per share for each of the three years presented, resulting in financing cash outflows of approximately $50.0 million each year. The Board of Directors approved an increase in the quarterly dividend on our common stock to $.17 per share beginning with our second quarter 2007 dividend, payable on May 1, 2007.

Repurchase Our Stock

In 2006, we purchased 1.1 million of our shares, compared to 0.3 million shares and 1.0 million shares in 2005 and 2004, respectively. In the future, we will plan to repurchases shares, at a minimum, to replace those issued for employee share plans (approximately one million shares each year). Based on our current plan for free cash flow, we expect our share repurchases in 2007 will be equal to or greater than 2006 levels.

Operating Cash Flows

Cash from operations is our primary source of funds and has decreased over the past three years. Increased revenues combined with lower estimated tax payments, higher non-cash equity compensation expense, and timing of litigation and regulatory settlement payments, partially offset the impact of considerably lower net earnings in 2006 and 2005 compared to 2004.

We anticipate that our 2007 contribution to our Pension Plan will be made from cash generated from operations and will be in the range of $5.0 to $10.0 million.

Investing Cash Flows

Investing activities consist primarily of the purchase and sale of available-for-sale investment securities, and to a lesser extent the purchase of data processing equipment and leasehold improvements. The increase in cash provided by investing activities in fiscal 2005 reflects the return of a $57.4 million cash appeal bond due to a legal settlement with Torchmark and proceeds from sales and maturities of available-for-sale mutual funds and debt securities. The decrease in cash provided by investing activities in fiscal 2004 reflects the purchase of certificates of deposit to fund the cash appeal bond that was returned to us during 2005.

Financing Cash Flows

As noted previously, dividends and stock repurchases accounted for a majority of our financing cash outflows in 2006. An increase in our stock price during 2006 resulted in increased stock option exercises, and cash provided by stock option exercises increased to $16.2 million in the current year. Additionally, Statement of Financial Accounting Standards ("SFAS") No. 123R, *"Share-Based Payment, (revised 2004)"* ("SFAS No. 123R"), which we adopted effective January 1, 2006, requires that the cash flows resulting from the tax benefits generated from tax deductions in excess of the compensation costs recognized for the share-based awards (excess tax benefits) be classified as financing cash flows. The excess tax benefit of $4.4 million recorded for the year ended December 31, 2006, classified as a financing tax inflow, would have been classified as an operating cash flow prior to the Company's adoption of SFAS No. 123R.

On January 13, 2006, we issued $200 million in principal amount 5.60% senior notes due 2011 resulting in net proceeds of approximately $198.2 million (net of discounts, commissions and estimated expenses). We used the net proceeds, together with cash on hand, to repay the entire $200 million aggregate principal amount outstanding of our 7.50% senior notes due January 18, 2006. The notes represent senior unsecured obligations and are rated "Baa2" by Moody's and "BBB" by Standard & Poor's. Interest is payable semi-annually on January 15 and July 15 at a rate of 5.60% per annum. The Company, at its option, may call these notes at any time pursuant to a make whole redemption provision, which would compensate holders for any changes in interest rate levels of the notes upon early extinguishment. The Company currently has no intention to call these notes.

In 2005, we entered into a three year revolving credit facility (the "Credit Facility") with various lenders, which initially provides for borrowings of up to $200 million. Borrowings under the Credit Facility bear interest at various rates including adjusted LIBOR or an alternate base rate plus, in each case, an incremental margin based on the Company's credit rating. The Credit Facility also provides for a facility fee on the daily aggregate amount of commitment under the revolving facility (whether or not utilized). The facility fee is also based on the Company's credit rating level. The Credit Facility contains financial covenants with respect to leverage and interest coverage, both of which we were in compliance with throughout fiscal 2006. At December 31, 2006, there were no borrowings outstanding under the Credit Facility.

Uses of cash in 2005 included payments on short-term borrowings of $35.0 million. In 2004, we had net short-term borrowings of $10.0 million.

Short Term Liquidity and 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 2007. Expected short-term uses of cash include expected dividend payments, interest payments on outstanding debt, share repurchases, strategic acquisitions, payment of deferred commissions to our financial advisors and third parties, capital expenditures, pension funding and home office leasehold improvements.

We pay our financial advisors and third parties upfront commissions on the sale of Class B and Class C shares. Funding of such commissions during the years ended December 31, 2006, 2005 and 2004 totaled $19.9 million, $11.8 million and $8.2 million, respectively. Management expects future cash requirements for sales commissions to be consistent with the level experienced in previous years.

Long Term Liquidity and Capital Requirements

Expected long-term capital requirements include indebtedness, operating leases and purchase obligations summarized in the following table as of December 31, 2006. Purchase obligations include amounts that will be due for the purchase of goods and services to be used in our operations under long-term commitments or contracts. The majority of our purchase obligations are reimbursable to us by the Funds.

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
			(in thousands)		
Long-term debt obligations	$250,342	11,200	22,400	216,742	—
Non-cancelable operating lease commitments	65,135	14,693	21,715	13,028	15,699
Purchase obligations	126,716	22,634	40,290	42,592	21,200
	$442,193	48,527	84,405	272,362	36,899

Other possible long-term discretionary uses of cash could include capital expenditures for enhancement of technology infrastructure and home office improvements, strategic acquisitions, payment of dividends, seed money for new products, payment of upfront fund commissions for Class B and C shares, and repurchases of our common stock.

Critical Accounting Policies and Estimates

Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

Accounting for Intangible Assets and Goodwill

As of December 31, 2006, our total intangible assets and goodwill were $228.4 million, or 34%, of our total assets. Two significant considerations arise with respect to these assets that require management estimates and judgment: (i) the valuation in connection with the initial purchase price allocation, and (ii) the ongoing evaluation of impairment.

In connection with all of our acquisitions, an evaluation is completed to determine reasonable purchase price allocations. The purchase price allocation process requires management estimates and judgments as to expectations for the various products, distribution channels, and business strategies. For example, certain growth rates and operating margins were assumed for different products and distribution channels. If actual growth rates or operating margins, among other assumptions, differ from the estimates and judgments used in the purchase price allocation, the amounts recorded in the financial statements for identifiable intangible assets and goodwill could be subject to charges for impairment in the future.

We complete an ongoing review of the recoverability of goodwill and intangible assets using a fair-value based approach on an annual basis or more frequently whenever events occur or circumstances change which would more likely than not reduce the fair value of a reporting unit below its carrying amount. Intangible assets with indefinite lives, primarily acquired mutual fund advisory contracts, are tested for impairment annually by comparing their fair value to the carrying amount of the asset. We consider mutual fund advisory contracts indefinite lived intangible assets as they are expected to be renewed without significant cost or modification of terms. Factors that are considered important in determining whether an impairment of goodwill or intangible assets might exist include significant continued underperformance compared to peers, the likelihood of termination or non-renewal of a mutual fund advisory or subadvisory contract or substantial changes in revenues earned from such contracts, significant changes in our business and products, material and ongoing negative industry or economic trends, or other factors specific to each asset or subsidiary being evaluated. Because of the significance of goodwill and other intangibles to our consolidated balance sheets, the annual impairment analysis is critical. Any changes in key assumptions about our business and our prospects, or changes in market conditions or other externalities, could result in an impairment charge.

Accounting for Income Taxes

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. We adjust our income tax provision in the period in which we determine the actual outcomes will likely be different from our estimates. During 2006 the company settled four open tax years, 2000 through 2004, that were undergoing audit by the United States Internal Revenue Service. These audits were settled in all material respects with no significant adjustments. The company is currently undergoing audits in various state jurisdictions which have not yet been settled.

We recognize an asset or liability for the deferred tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, including the determination of any valuation allowance that might be required for deferred tax assets. These temporary differences will result in taxable or deductible amounts in future years when the reported amounts of assets are recovered or liabilities are settled. As of December 31, 2006 and December 31, 2005, one of the Company's subsidiaries has state net operating loss carryforwards in certain states in which that company files on a separate company basis and has recognized a deferred tax asset for such loss carryforwards. The carryforwards, if not utilized, will expire between 2011 and 2026. Management believes it is not more likely than not that the subsidiary will generate sufficient future taxable income in these states to realize the benefit of these state net operating loss carryforwards and, accordingly, a valuation allowance in the full amount of the deferred tax asset has been established at December 31, 2006 and December 31, 2005. We have not recorded a valuation allowance on any other deferred tax assets as of the current reporting period based on our belief that operating income will, more likely than not, be sufficient to realize the benefit of these assets over time. In the event that actual results differ from estimates or if our historical trend of positive operating income changes, we may be required to record a valuation allowance on deferred tax assets, which could have a significant effect on our consolidated financial condition and results of operations. Finally, income taxes are recorded at the rates in effect in the various tax jurisdictions in which we operate. Tax law and rate changes are reflected in the income tax provision in the period in which such changes are enacted.

Pensions and Other Postretirement Benefits

Accounting for our pension and postretirement benefit plans requires us to estimate the cost of benefits to be provided well into the future and the current value of our benefit obligations. Three critical assumptions affecting these estimates are the discount rate, the expected return on assets, and the expected health care cost trend rate. The discount rate assumption is based on the Mercer Bond Model which calculates the yield on a theoretical portfolio of high-grade corporate bonds with cash flows that generally match our expected benefit payments. The expected return on plan assets and health care cost trend rates are based upon an evaluation of our historical trends and experience, taking into account current and expected future market conditions. Other assumptions include rates of future compensation increases, participant withdrawals and mortality rates, and participant retirement ages. These estimates and assumptions impact the amount of net pension expense or income recognized each year and the measurement of our reported benefit obligation under the plans. We use a December 31st measurement date for both of our plans.

To reflect market interest rates, in 2006 we increased the discount rate for our pension and postretirement plans to 6.0% from the 5.75% used in 2005 and 2004. We continue to assume long-term asset returns of 7.75% on the assets in our pension plan, the same as our assumption in 2005 and lower than our assumption of 8.25% for 2004. Plan assets are invested in styles including large cap growth, asset strategy, core plus fixed income and science and technology. Our portfolio mix at year-end was 42% large cap growth, 31% asset strategy, 24% core plus fixed income and 3% science and technology. Our targeted allocation percentages are 40% large cap growth, 30% asset strategy, 27% core plus fixed income and 3% science and technology.

The effect of hypothetical changes to selected assumptions on the Company's retirement benefit plans would be as follows in thousands of dollars:

Assumptions	Change	December 31, 2006 Increase (Decrease) PBO/APBO (1)	December 31, 2007 Increase (Decrease) Expense (2)
	(in thousands, except percentage data)		
Pension			
Discount rate	+/−50 bps	$(4,496)/8,914	$(528)/1,341
Expected return on assets	+/−50 bps	N/A	(405)/405
OPEB			
Discount rate	+/−50 bps	(192)/208	(27)/29
Health care cost trend rate	+/−100 bps	408/(355)	94/(80)

(1) Projected benefit obligation ("PBO") for pension plans and accumulated postretirement benefit obligation; ("APBO") for OPEB plans.

(2) Pre-tax impact on expense.

Deferred Sales Commissions

We pay upfront sales commissions to our financial advisors and third party intermediary broker/dealers in connection with the sale of certain classes of mutual fund shares sold without a front-end sales charge. These costs are capitalized and amortized over the period during which the shareholder is subject to a CDSC, not to exceed five years. We recover these costs through Rule 12b-1 distribution plan payments fees, which are paid by the applicable share classes of the Advisors Funds, Ivy Funds and InvestEd portfolios, along with CDSC's paid by shareholders who redeem their shares prior to completion of the required holding periods. Should we lose our ability to recover such sales commissions through distribution plan payments and CDSC, the value of these assets would immediately decline, as would future cash flows. We periodically review the recoverability of deferred sales commission assets as events or changes in circumstances indicate that the carrying amount of deferred sales commission assets may not be recoverable and adjust the deferred assets accordingly.

Valuation of Investments

We record substantially all investments in our financial statements at fair value. Where available, we use prices from independent sources such as listed market prices or broker or dealer price quotations. We evaluate our investments for other than temporary declines in value on a periodic basis. This may exist when the fair value of an investment security has been below the current value for an extended period of time. As most of our investments are carried at fair value, if an other than temporary decline in value is determined to exist, the unrealized investment loss recorded net of tax in accumulated other comprehensive income is realized as a charge to net income, in the period in which the other than temporary decline in value is determined. While we believe that we have accurately estimated the amount of the other than temporary decline in the value of our portfolio, different assumptions could result in changes to the recorded amounts in our financial statements.

Loss Contingencies

The likelihood that a loss contingency exists is evaluated using the criteria of SFAS No. 5, *"Accounting for Contingencies"* through consultation with legal counsel. A loss contingency is recorded if the contingency is considered probable and reasonably estimable as of the date of the financial statements.

Recent Accounting Developments

In September 2006, the FASB issued SFAS No. 157, *"Fair Value Measurements"* ("SFAS No. 157"). This Statement defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and accordingly, does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are in the process of evaluating the impact of the adoption of SFAS No. 157 will have on our results of operations and financial condition.

In June 2006, the FASB issued Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109"* ("FIN 48"), to clarify certain aspects of accounting for uncertain tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax provision is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN 48 as of January 1, 2007, as required.

FIN 48 provides that interest recognized in the financial statements as a result of the application of FIN 48 may be classified in the financial statements as either income taxes or interest expense. FIN 48 further provides that any penalties recognized in the financial statements as a result of applying FIN48 may be classified in the financial statements as either income taxes or another expense classification. The classification of these items is based upon the accounting policy election of the company. The Company's historic accounting policy with respect to interest and penalties recognized in the financial statements for tax uncertainties has been to classify these amounts as income taxes. The Company will continue this classification upon the adoption of FIN 48.

The company believes that the cumulative effect of adopting FIN 48, and therefore, the cumulative adjustment to be recorded to retained earnings will be insignificant, if any. The Company does not expect that the adoption of FIN 48 will have a significant impact on the Company's financial position and results of operation.

The Company is currently being audited in three state jurisdictions. It is reasonably possible that the Company will settle the examinations in these jurisdictions within the next 12-month period.

In June 2006, the Emerging Issues Task Force (the "EITF") reached a consensus on EITF Issue No. 06-4, "*Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*" ("EITF 06-4") which requires the application of the provisions of SFAS No. 106, "*Employers' Accounting for Postretirement Benefits Other Than Pensions*" ("SFAS No. 106") to split-dollar life insurance arrangements. SFAS No. 106 would require the Company to recognize a liability for the discounted future benefit obligation that the Company will have to pay upon the death of the underlying insured employee. EITF 06-4 is effective for fiscal years beginning after December 15, 2007. We currently have certain policies subject to the provisions of this new pronouncement and are evaluating the impact of the adoption of EITF 06-4 might have on our results of operations and financial condition.

Seasonality and Inflation

We do not believe our operations are subject to significant seasonal fluctuations; however, we have historically experienced increased sales activity in the first and fourth quarters of the year due to funding of retirement accounts by our clients. The Company has not suffered material adverse affects from inflation in the past. However, a substantial increase in the inflation rate in the future may adversely affect customers' purchasing decisions, may increase the costs of borrowing, or may have an impact on the Company's margins and overall cost structure.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

We use various financial instruments with certain inherent market risks, primarily related to interest rates and securities prices. The principal risks of loss arising from adverse changes in market rates and prices to which we are exposed relate to interest rates on debt and marketable securities. Generally, these instruments have not been entered into for trading purposes. Management actively monitors these risk exposures; however, fluctuations could impact our results of operations and financial position. As a matter of policy, we only execute derivative transactions to manage exposures arising in the normal course of business and not for speculative or trading purposes. The following information, together with information included in other parts of Management's Discussion and Analysis of Financial Condition and Results of Operations, which are incorporated herein by reference, describe the key aspects of certain financial instruments that have market risk to us.

Interest Rate Sensitivity

Our interest sensitive liabilities include our long-term fixed rate senior notes and obligations for any balances outstanding under our credit facility or other short-term borrowings. Increases in market interest rates would generally cause a decrease in the fair value of the senior notes and an increase in interest expense associated with short-term borrowings and borrowings under the credit facility. Decreases in market interest rates would generally cause an increase in the fair value of the senior notes and a decrease in interest expense associated with short-term borrowings and borrowings under the credit facility. We had no short-term borrowings outstanding as of December 31, 2006. On January 13, 2006, we issued \$200 million in principal amount of 5.60% fixed rate senior notes due 2011. Proceeds from the new senior notes were used to pay down our \$200 million in 7.50% senior notes which matured on January 18, 2006.

During 2005, the Company entered into two forward starting interest rate swap agreements that had five year fixed swap rates of 4.57% and 4.84%, respectively, on notional amounts of \$100 million for each swap. The swaps were put in place to hedge against changes in forecasted interest payments attributable to changes in the LIBOR swap rate between the time we entered into the swap agreement and the time we anticipated refinancing the Notes in January 2006. We assessed the effectiveness of the swaps as hedges at their inception and at December 31, 2005, and we consider these swaps to be completely effective cash flow hedges under SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities*". As of December 31, 2006, net unrealized gains attributed to the forward swap cash flow hedges were approximately \$0.9 million and were included as a component of other comprehensive income.

On January 10, 2006, the Company terminated these forward interest rate swap agreements upon the completion of its new offering in January 2006 of \$200 million in principal amount 5.60% senior notes due January 2011. In connection with the termination of the swap agreements, the Company received a net cash settlement of \$1.1 million. The Company's gain on this transaction will be deferred in accumulated other comprehensive income and will be amortized into earnings as a decrease to interest expense over the five year term of the new notes.

Available for Sale Investments Sensitivity

We maintain an investment portfolio of various holdings, types and maturities. Our portfolio is diversified and consists primarily of investment grade debt securities and equity mutual funds. A substantial portion of investments are classified as available-for-sale investments. At any time, a sharp increase in interest rates or a sharp decline in the United States stock market could have a material adverse impact on the fair value of our investment portfolio. If a decline in fair value is determined to be other than temporary by management, the cost basis of the individual security or mutual fund is written down to fair value. Conversely, declines in interest rates or a significant rise in the United States stock market could have a material positive impact on our investment portfolio. However, unrealized gains are not recognized on available-for-sale securities until they are sold. We do not currently hedge these exposures.

Securities Price Sensitivity

Our revenues are dependent on the underlying assets under management in the Funds to which investment advisory services are provided. The Funds include portfolios of investments comprised of various combinations of equity, fixed income and other types of securities. Fluctuations in the value of these securities are common and are generated by numerous factors, including, without limitation, market volatility, the overall economy, inflation, changes in investor strategies, availability of alternative investment vehicles, government regulations and others. Accordingly, declines in any one or a combination of these factors, or other factors not separately identified, may reduce the value of investment securities and, in turn, the underlying assets under management on which our revenues are earned. These declines have an impact in our investment sales, thereby compounding the impact on our earnings.

ITEM 8. Financial Statements and Supplementary Data

Reference is made to the Consolidated Financial Statements referred to in the Index on page 51 setting forth our consolidated financial statements, together with the report of KPMG LLP dated March 1, 2007 on page 52.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

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

(b) *Management's Report on Internal Control Over Financial Reporting.* Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "*Internal Control-Integrated Framework*" issued by the Committee of Sponsoring Organizations of the Treadway Commission. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable, not absolute, assurance with respect to financial statement preparation and presentation. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our evaluation under the framework in "*Internal Control-Integrated Framework*," management concluded that, as of December 31, 2006, our internal control over financial reporting was effective. Management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their attestation report which follows.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Waddell & Reed Financial, Inc.:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Waddell & Reed Financial, Inc. maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Waddell & Reed Financial Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Waddell & Reed Financial, Inc. maintained effective internal control over financial reporting as of December 31, 2006 is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework* issued by COSO. Also, in our opinion, Waddell & Reed Financial, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Waddell & Reed Financial, Inc. and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity, comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2006, and our report dated March 1, 2007 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Kansas City, Missouri
March 1, 2007

(c) *Changes in Internal Control over Financial Reporting.* The Company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. There were no changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. Other Information.

None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

Information required by this Item 10. is incorporated herein by reference to our definitive proxy statement for our 2007 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under the Exchange Act.

ITEM 11. Executive Compensation

Information required by this Item 11. is incorporated herein by reference to our definitive proxy statement for our 2007 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under the Exchange Act.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required by this Item 12. is incorporated herein by reference to our definitive proxy statement for our 2007 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under the Exchange Act.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

Information required by this Item 13. is incorporated herein by reference to our definitive proxy statement for our 2007 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under the Exchange Act.

ITEM 14. Principal Accounting Fees and Services

Information required by this Item 14. is incorporated herein by reference to our definitive proxy statement for our 2007 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under the Exchange Act.

PART IV

ITEM 15. Exhibits, Financial Statement Schedules

(a)(1) Financial Statements.
Reference is made to the Index to Consolidated Financial Statements on page 51 for a list of all financial statements filed as part of this Report.

(a)(2) Financial Statement Schedules.
None.

(b) Exhibits.
Reference is made to the Index to Exhibits beginning on page 87 for a list of all exhibits filed as part of this Report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Company has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Overland Park, State of Kansas, on March 1, 2007.

WADDELL & REED FINANCIAL, INC.

By: /s/ HENRY J. HERRMANN
Henry J. Herrmann
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

Name	Title	Date
/s/ HENRY J. HERRMANN Henry J. Herrmann	Chief Executive Officer and Director (Principal Executive Officer)	March 1, 2007
/s/ DANIEL P. CONNEALY Daniel P. Connealy	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	March 1, 2007
/s/ MARK A. SCHIEBER Mark A. Schieber	Vice President and Controller (Principal Accounting Officer)	March 1, 2007
/s/ ALAN W. KOSLOFF Alan W. Kosloff	Chairman of the Board and Director	March 1, 2007
/s/ DENNIS E. LOGUE Dennis E. Logue	Director	March 1, 2007
/s/ JAMES M. RAINES James M. Raines	Director	March 1, 2007
/s/ RONALD C. REIMER Ronald C. Reimer	Director	March 1, 2007
/s/ WILLIAM L. ROGERS William L. Rogers	Director	March 1, 2007
/s/ JERRY W. WALTON Jerry W. Walton	Director	March 1, 2007

WADDELL & REED FINANCIAL, INC.

Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Waddell & Reed Financial, Inc.:

We have audited the accompanying consolidated balance sheets of Waddell & Reed Financial, Inc. and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity, comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Waddell & Reed Financial, Inc. and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006 in conformity with U.S. generally accepted accounting principles.

As discussed in note 10 to the consolidated financial statements, the Company changed its method of accounting for pension plan and postretirement obligations in 2006.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Waddell & Reed Financial, Inc.'s internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 1, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

Kansas City, Missouri
March 1, 2007

WADDELL & REED FINANCIAL, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2006 and 2005

	2006	2005
	(in thousands)	
Assets:		
Cash and cash equivalents	$ 196,516	162,775
Investment securities	48,129	51,701
Receivables:		
Funds and separate accounts	38,806	33,405
Customers and other	59,863	43,261
Deferred income taxes	2,923	1,978
Prepaid expenses and other current assets	5,766	6,602
Total current assets	352,003	299,722
Property and equipment, net	50,875	52,963
Deferred sales commissions, net	20,462	15,899
Goodwill and identifiable intangible assets	228,432	250,308
Other assets	10,942	13,379
Total assets	$ 662,714	632,271
Liabilities:		
Accounts payable	$ 27,051	23,284
Payable to investment companies for securities	64,971	37,646
Accrued compensation	31,731	32,948
Short-term notes payable	—	1,746
Income taxes payable	14,804	11,975
Other current liabilities	50,994	49,185
Total current liabilities	189,551	156,784
Long-term debt	199,942	198,230
Accrued pension and post-retirement costs	12,663	8,303
Deferred income taxes	12,082	15,707
Other	3,776	5,873
Total liabilities	418,014	384,897
Commitments and Contingencies (Note 18)		
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; 84,660 shares outstanding (83,804 in 2005)	997	997
Additional paid-in capital	189,299	195,315
Retained earnings	388,422	393,043
Cost of 15,041 shares in treasury (15,897 in 2005)	(327,966)	(343,100)
Accumulated other comprehensive income (loss)	(6,052)	1,119
Total stockholders' equity	244,700	247,374
Total liabilities and stockholders' equity	$ 662,714	632,271

See accompanying notes to consolidated financial statements.

WADDELL & REED FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2006, 2005 and 2004

	2006	2005	2004
	(in thousands, except per share data)		
Revenues:			
Investment management fees	$311,525	267,681	240,282
Underwriting and distribution fees	317,458	272,590	252,883
Shareholder service fees	89,672	81,809	76,522
Total	718,655	622,080	569,687
Operating expenses:			
Underwriting and distribution	356,538	303,337	268,799
Compensation and related costs (including share-based compensation of $21.9 million, $17.8 million and $10.3 million, respectively)	110,101	99,673	83,099
General and administrative	100,604	87,029	38,357
Subadvisory fees	30,758	18,218	6,983
Depreciation	11,725	10,275	9,090
Goodwill impairment	20,000	—	—
Total	629,726	518,532	406,328
Operating income	88,929	103,548	163,359
Investment and other income	12,498	6,680	5,575
Interest expense	(12,227)	(14,278)	(10,724)
Income before provision for income taxes	89,200	95,950	158,210
Provision for income taxes	43,088	35,829	56,045
Net income	$ 46,112	60,121	102,165
Net income per share:			
Basic	$ 0.57	0.74	1.27
Diluted	$ 0.55	0.73	1.25
Weighted average shares outstanding —basic	81,353	80,908	80,613
—diluted	83,212	82,045	81,924
Dividends declared per common share	$ 0.60	0.60	0.60

See accompanying notes to consolidated financial statements.

WADDELL & REED FINANCIAL, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2006, 2005 and 2004

(in thousands)

	Common Stock		Additional Paid-in	Retained	Treasury	Accumulated other comprehensive	Total Stockholders
	Shares	Amount	Capital	Earnings	stock	gain (loss)	equity
Balance at December 31, 2003	99,701	$997	219,974	330,561	(379,612)	3,485	175,405
Net income	—	—	—	102,165	—	—	102,165
Recognition of equity compensation	—	—	10,455	—	(77)	—	10,378
Issuance of nonvested shares and other	—	—	(24,371)	—	24,371	—	—
Dividends accrued	—	—	—	(49,571)	—	—	(49,571)
Exercise of stock options	—	—	(4,022)	—	13,967	—	9,945
Excess tax benefits from share-based payment arrangements	—	—	2,877	—	—	—	2,877
Other stock transactions	—	—	—	—	(970)	—	(970)
Repurchase of common stock	—	—	—	—	(23,571)	—	(23,571)
Unrealized gain on available for sale investment securities	—	—	—	—	—	2,300	2,300
Reclassification for amounts included in net income	—	—	—	—	—	(1,226)	(1,226)
Minimum pension liability adjustment	—	—	—	—	—	(8,855)	(8,855)
Balance at December 31, 2004	99,701	997	204,913	383,155	(365,892)	(4,296)	218,877
Net income	—	—	—	60,121	—	—	60,121
Recognition of equity compensation	—	—	17,926	—	—	—	17,926
Issuance of nonvested shares and other	—	—	(27,655)	—	27,655	—	—
Dividends accrued	—	—	—	(50,233)	—	—	(50,233)
Exercise of stock options	—	—	(1,542)	—	3,602	—	2,060
Excess tax benefits from share-based payment arrangements	—	—	1,673	—	—	—	1,673
Other stock transactions	—	—	—	—	(2,468)	—	(2,468)
Repurchase of common stock	—	—	—	—	(5,997)	—	(5,997)
Unrealized gain on available for sale investment securities	—	—	—	—	—	1,344	1,344
Reclassification for amounts included in net income	—	—	—	—	—	(648)	(648)
Change in fair value of derivatives	—	—	—	—	—	1,010	1,010
Minimum pension liability adjustment	—	—	—	—	—	3,709	3,709
Balance at December 31, 2005	99,701	997	195,315	393,043	(343,100)	1,119	247,374
Net income	—	—	—	46,112	—	—	46,112
Recognition of equity compensation	—	—	21,854	8	—	—	21,862
Issuance of nonvested shares and other	—	—	(26,934)	—	26,934	—	—
Dividends accrued	—	—	—	(50,741)	—	—	(50,741)
Exercise of stock options	—	—	(5,295)	—	21,483	—	16,188
Excess tax benefits from share-based payment arrangements	—	—	4,359	—	—	—	4,359
Other stock transactions	—	—	—	—	(5,640)	—	(5,640)
Repurchase of common stock	—	—	—	—	(27,643)	—	(27,643)
Unrealized gain on available for sale investment securities	—	—	—	—	—	1,569	1,569
Reclassification for amounts included in net income	—	—	—	—	—	(2,199)	(2,199)
Change in fair value of derivatives	—	—	—	—	—	(283)	(283)
Reversal of minimum pension liability	—	—	—	—	—	5,146	5,146
Additional pension and postretirement plan liability	—	—	—	—	—	(11,404)	(11,404)
Balance at December 31, 2006	99,701	$997	189,299	388,422	(327,966)	(6,052)	244,700

See accompanying notes to consolidated financial statements.

WADDELL & REED FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31, 2006, 2005 and 2004

	2006	2005	2004
		(in thousands)	
Net income	$46,112	60,121	102,165
Other comprehensive income:			
Available-for-sale investments:			
Net unrealized appreciation of investments during the period, net of income taxes of $719, $789 and $1,250, respectively	1,569	1,344	2,300
Derivatives:			
Net unrealized gain (loss) on derivatives during the period, net of income taxes of $(188), $593 and $0, respectively	(283)	1,010	—
Minimum pension liability:			
Minimum pension liability, net of income taxes of $3,022, $2,179 and $(5,201), respectively	5,146	3,709	(8,855)
Reclassification adjustment for amounts included in net income, net of income taxes of $(1,226), $(381) and $(720), respectively	(2,199)	(648)	(1,226)
Comprehensive income	$50,345	65,536	94,384

See accompanying notes to consolidated financial statements.

WADDELL & REED FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2006, 2005 and 2004

	2006	2005	2004
		(in thousands)	
Cash flows from operating activities:			
Net income	$ 46,112	60,121	102,165
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	11,937	11,497	10,618
Share-based compensation	21,862	17,786	10,336
Excess tax benefits from share-based payment arrangements	(4,359)	—	—
Gain on sale of available-for-sale investments	(3,260)	(1,029)	—
Net purchases and sales of trading securities	(749)	1,791	(426)
Gain on trading securities	(283)	(586)	(2,356)
Goodwill impairment	20,000	—	—
Loss on sale and retirement of property and equipment	592	175	228
Capital gains and dividends reinvested	(1,317)	(784)	(865)
Deferred income taxes	(1,423)	(2,866)	9,465
Changes in assets and liabilities:			
Receivables from funds and separate accounts	(5,401)	(8,654)	(2,024)
Other receivables	(16,632)	(5,225)	(7,797)
Other assets	(4,741)	2,878	9,065
Accounts payable	31,091	4,186	2,409
Other liabilities	6,130	24,932	(16,133)
Net cash provided by operating activities	99,559	104,222	114,685
Cash flows from investing activities:			
Purchases of available-for-sale investment securities	(7,350)	(600)	(1,124)
Proceeds from sales of available-for-sale investment securities	14,812	9,096	—
Proceeds from maturity of available-for-sale investment securities	435	9,275	17,663
Additions to property and equipment	(10,229)	(8,984)	(8,255)
Cash paid for acquisitions	—	(15)	(231)
Appeal bond deposits	—	57,368	(56,250)
Net cash provided by (used in) investing activities	(2,332)	66,140	(48,197)
Cash flows from financing activities:			
Proceeds from long term debt and interest rate swap termination	199,863	—	—
Repayment of long term debt	(200,000)	—	—
Net short term borrowings (repayments)	—	(35,000)	10,000
Cash dividends	(50,613)	(50,082)	(49,458)
Repurchase of common stock	(27,643)	(5,997)	(23,571)
Exercise of stock options	16,188	2,060	9,945
Excess tax benefits from share-based payment arrangements	4,359	—	—
Other stock transactions	(5,640)	(2,468)	(970)
Net cash used in financing activities	(63,486)	(91,487)	(54,054)
Net increase in cash and cash equivalents	33,741	78,875	12,434
Cash and cash equivalents at beginning of year	162,775	83,900	71,466
Cash and cash equivalents at end of year	$ 196,516	162,775	83,900
Cash paid for:			
Income taxes (net)	$ 29,922	33,234	48,550
Interest	$ 6,845	12,752	9,202

See accompanying notes to consolidated financial statements.

WADDELL & REED FINANCIAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006, 2005, and 2004

1. Description of Business

Waddell & Reed Financial, Inc. and subsidiaries (hereinafter referred to as the "Company," "we," "our" and "us") derive revenues primarily from investment management, investment product underwriting and distribution, and shareholder services administration provided to the Waddell & Reed Advisors Group of Mutual Funds (the "Advisors Funds"), W&R Target Funds, Inc. (the "Target Funds"), Ivy Funds, Inc. and the Ivy Funds portfolios (collectively, the "Ivy Funds"), and Waddell & Reed InvestEd Portfolios, Inc. (collectively, the "Funds"), and institutional and separately managed accounts. The Funds and the institutional and separately managed accounts operate under various rules and regulations set forth by the United States Securities and Exchange Commission (the "SEC"). Services to the Funds are provided under investment management agreements that set forth the fees to be charged for these services. The majority of these agreements are subject to annual review and approval by each Fund's board of directors/trustees and shareholders. Our revenues are largely dependent on the total value and composition of assets under management, which include mainly domestic equity securities, but also include debt securities and international equities. Accordingly, fluctuations in financial markets and composition of assets under management can significantly impact revenues and results of operations.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Amounts in the accompanying financial statements and notes are rounded to the nearest thousand unless otherwise stated. Certain amounts in the prior years' financial statements have been reclassified for consistent presentation.

Use of Estimates

GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses in the consolidated financial statements and accompanying notes, and related disclosures of commitments and contingencies. Estimates are used for, but are not limited to, depreciation and amortization, taxes, valuation of assets, pension and postretirement obligations, and contingencies. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and short-term investments. We consider all highly liquid investments with original or remaining maturities of 90 days or less at the date of purchase to be cash equivalents. Cash and cash equivalents at December 31, 2006 and 2005 include amounts of $32.6 million and $26.1 million, respectively, for the benefit of customers segregated in compliance with federal and other regulations. Substantially all cash balances are in excess of federal deposit insurance limits.

2. Summary of Significant Accounting Policies (Continued)

Disclosures About Fair Value of Financial Instruments

Fair value of cash and cash equivalents, short-term investments, receivables, payables and long-term debt approximates carrying value. Fair values for investment securities are based on quoted market prices, where available. Otherwise, fair values are based on quoted market prices of comparable instruments.

Investment Securities and Investments in Affiliated Mutual Funds

Our investments are comprised of United States, state and government obligations, corporate debt securities and investments in affiliated mutual funds. Investments are classified as available-for-sale or trading. Unrealized holding gains and losses on securities available-for-sale, net of related tax effects, are excluded from earnings until realized and are reported as a separate component of comprehensive income. For trading securities, unrealized holding gains and losses, net of related tax effects, are included in earnings. Realized gains and losses are computed using the specific identification method for investment securities, other than mutual funds. For mutual funds, realized gains and losses are computed using the average cost method.

Our available-for-sale investments are reviewed and adjusted for other than temporary declines in value. When a decline in fair value of an available for sale investment is determined to be other than temporary, the unrealized loss recorded net of tax in other comprehensive income is realized as a charge to net income and a new cost basis is established for financial reporting purposes.

Property and Equipment

Property and equipment are carried at cost. The costs of improvements that extend the life of a fixed asset are capitalized, while the costs of repairs and maintenance are expensed as incurred. Depreciation and amortization are calculated and recorded using the straight-line method over the estimated useful life of the related asset (or lease term if shorter), generally three to ten years for furniture, fixtures, and data processing equipment; three to twenty years for equipment and machinery; and up to fifteen years for leasehold improvements.

Software Developed for Internal Use

Certain internal costs incurred in connection with developing or obtaining software for internal use are capitalized in accordance with the American Institute of Certified Public Accountants' Statement of Position No. 98-1, "*Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*." The costs of designing and implementing software are expensed as incurred. Internal costs capitalized are included in "Property and equipment, net" on the consolidated balance sheets, and were $8.5 million, $8.6 million and $8.3 million, as of December 31, 2006, 2005 and 2004, respectively. Amortization begins when the software project is complete and ready for its intended use and continues over the estimated useful life, generally five to ten years.

2. Summary of Significant Accounting Policies (Continued)

Goodwill and Intangible Assets

Goodwill represents the excess of the cost of the Company's investment in the net assets of acquired companies over the fair value of the underlying identifiable net assets at the dates of acquisition. Goodwill is not amortized, but is tested at least annually for impairment.

Identifiable intangible assets with indefinite useful lives are not amortized. Indefinite life intangible assets represent advisory and subadvisory management contracts for managed assets obtained in acquisitions. We consider these contracts to be indefinite lived intangible assets as they are expected to be renewed without significant cost or modification of terms. We complete an ongoing review of the recoverability of identifiable intangible assets on an annual basis or more frequently whenever events occur or circumstances change which would more likely than not reduce their fair value.

Factors that are considered important in determining whether an impairment of goodwill or intangible assets might exist include significant continued underperformance compared to peers, the likelihood of termination or non-renewal of a mutual fund advisory or subadvisory contract or substantial changes in revenues earned from such contracts, significant changes in our business and products, material and ongoing negative industry or economic trends, or other factors specific to each asset or subsidiary being evaluated. Because of the significance of goodwill and other intangible assets to our consolidated balance sheet, any changes in key assumptions about our business or prospects, or changes in market conditions or other externalities, could result in an impairment charge and such a charge could have a material effect on our financial condition and results of operations. Based on our annual review of goodwill in the second quarter of 2006, in accordance with SFAS No. 142, *"Goodwill and Other Intangible Assets,"* ("SFAS No. 142") we recorded an impairment charge of $20.0 million related to our subsidiary, Austin Calvert & Flavin, Inc. ("ACF"). The impairment charge is described in Note 6. It was determined that no impairment existed during our evaluation of identifiable intangible assets during 2006.

Deferred Sales Commissions

We defer certain costs, principally sales commissions and related compensation, which are paid to financial advisors and broker/dealers in connection with the sale of certain mutual fund shares sold without a front-end load sales charge. The costs incurred at the time of the sale of Class B shares are deferred and then amortized on a straight-line basis over the life of the shareholders' investments, not to exceed five years. The costs incurred at the time of the sale of Class C shares are deferred and amortized on a straight-line basis, not to exceed 12 months. We recover such costs through Rule 12b-1 distribution fees, which are paid by the Class B and Class C shares of the Advisors Funds and Ivy Funds, along with contingent deferred sales charges ("CDSC's") paid by shareholders who redeem their shares prior to completion of the required holding period (six years for a Class B share and 12 months for a Class C share). Should we lose our ability to recover such sales commissions through distribution fees or CDSC's, the value of these assets would immediately decline, as would future cash flows. We periodically review the recoverability of the deferred sales commission assets as events or changes in circumstances indicate that their carrying amount may not be recoverable and adjust them accordingly.

2. Summary of Significant Accounting Policies (Continued)

Revenue Recognition

We recognize investment management fees as earned over the period in which services are rendered. We charge the Funds daily based upon average daily net assets under management in accordance with investment management agreements between the Funds and the Company. In general, the majority of investment management fees earned from institutional and separate accounts are charged quarterly based upon an average of net assets under management at the end of the months within the quarter in accordance with such agreements.

Shareholder service fees are recognized monthly and are calculated based on the number of accounts or assets under management as applicable. Other administrative service fee revenues are recognized as contractual obligations are fulfilled or as services are provided.

Underwriting and distribution commission revenues resulting from the sale of investment products are recognized on the trade date.

We also recognize certain distribution revenues monthly on certain types of investment products, primarily variable annuity products, generally calculated based upon average daily net assets under management.

Advertising and Promotion

We expense all advertising and promotion costs as incurred. Advertising expense was $2.9 million, $3.5 million and $2.6 million, for the years ended December 31, 2006, 2005 and 2004, respectively.

Share-Based Compensation

Prior to January 1, 2006, the Company used the intrinsic value method as described in Accounting Principles Board Opinion No. 25, *"Accounting for Stock Issued to Employees"* ("APB 25") to measure employee stock-based compensation as permitted by SFAS No. 123, *"Accounting for Stock-Based Compensation"* ("SFAS No. 123"). Under this method, compensation expense related to stock options was measured as the difference between the exercise price and the fair value of the shares on the grant date, if any, and was recognized over the vesting period, which approximated the anticipated service period.

2. Summary of Significant Accounting Policies (Continued)

Had compensation cost for the Company's stock-based compensation plans been determined using the fair value method as described in SFAS No. 123, the Company's net income and earnings per share for the years ended December 31, 2005 and 2004 would have been reduced to the following pro forma amounts:

	2005	2004
	(in thousands, except per share data)	
Net income, as reported	$60,121	102,165
Add: Total stock option expense included in reported net income, net of related tax effects	1,137	—
Deduct: Total stock option expense determined under fair-value based method for all awards, net of related tax effects	(1,558)	(2,023)
Pro forma net income	$59,700	100,142
Basic earnings per share		
As reported	$ 0.74	1.27
Pro forma	0.74	1.24
Diluted earnings per share		
As reported	0.73	1.25
Pro forma	0.73	1.22

The weighted-average fair value of each stock option included in the preceding pro forma amounts was estimated using a Black-Scholes option pricing model and was amortized over the vesting period of the underlying options.

Effective January 1, 2006, the Company adopted SFAS No. 123R, *"Share-Based Payment, (revised 2004)"* ("SFAS No. 123R"). The revised standard eliminated the intrinsic value method of accounting required under APB 25. The Company adopted SFAS No. 123R using the modified prospective transition method of adoption, which does not require restatement of prior periods. Under that transition method, compensation expense recognized in 2006 for all share-based awards granted after December 31, 2005 is based on the grant date fair value of the awards, net of estimated forfeitures.

In its computation of stock-based compensation expense under APB 25, the Company recognized actual forfeitures when they occurred. Under SFAS No. 123R, the Company is required to estimate forfeitures at the grant date. The Company recognized a cumulative effect of change in accounting principle of $503 thousand ($321 thousand increase to net income after tax) upon adoption, in order to adjust for expected forfeitures on all nonvested stock awards outstanding on January 1, 2006. This cumulative effect of change in accounting principle is classified in compensation and related costs in the consolidated statement of income for the year ended December 31, 2006.

Income Taxes

Income tax expense is based on pre-tax financial accounting income. Deferred tax assets and liabilities are recognized for the future tax attributable to differences between the financial statement carrying

2. Summary of Significant Accounting Policies (Continued)

amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date.

Derivatives and Hedging Activities

Derivative instruments are recorded on the balance sheet at fair value. The Company periodically uses interest rate swaps to manage risks associated with interest rate volatility. All derivative instruments have been designated as hedges, in accordance with GAAP. If the underlying hedged transaction ceases to exist, all changes in fair value of the related derivatives that have not been settled are recognized in current earnings or amortized over the term of the hedged transaction. Derivatives that do not qualify for hedge accounting are marked to market with changes recognized in current earnings. The Company does not hold or issue derivative financial instruments for trading purposes and is not a party to leveraged derivatives.

3. Accounting Developments

In September 2006, the FASB issued SFAS No. 157, *"Fair Value Measurements"* ("SFAS No. 157"). This Statement defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and accordingly, does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are in the process of evaluating the impact of the adoption of SFAS No. 157 will have on our results of operations and financial condition.

In June 2006, the FASB issued Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109"* ("FIN 48"), to clarify certain aspects of accounting for uncertain tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax provision is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN 48 as of January 1, 2007, as required.

FIN 48 provides that interest recognized in the financial statements as a result of the application of FIN 48 may be classified in the financial statements as either income taxes or interest expense. FIN 48 further provides that any penalties recognized in the financial statements as a result of applying FIN 48 may be classified in the financial statements as either income taxes or another expense classification. The classification of these items is based upon the accounting policy election of the company. The Company's historic accounting policy with respect to interest and penalties recognized in the financial statements for tax uncertainties has been to classify these amounts as income taxes. The Company will continue this classification upon the adoption of FIN 48.

The company believes that the cumulative effect of adopting FIN 48, and therefore, the cumulative adjustment to be recorded to retained earnings will be insignificant, if any. The Company does not expect

3. Accounting Developments (Continued)

that the adoption of FIN 48 will have a significant impact on the Company's financial position and results of operation.

The Company is currently being audited in three state jurisdictions. It is reasonably possible that the Company will settle the examinations in these jurisdictions within the next 12-month period.

In June 2006, the Emerging Issues Task Force (the "EITF") reached a consensus on EITF Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements" ("EITF 06-4") which requires the application of the provisions of Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("SFAS No. 106") to split-dollar life insurance arrangements. SFAS No. 106 would require the Company to recognize a liability for the discounted future benefit obligation that the Company will have to pay upon the death of the underlying insured employee. EITF 06-4 is effective for fiscal years beginning after December 15, 2007. We have certain insurance policies subject to the provisions of this new pronouncement and are evaluating the impact of the adoption of EITF 06-4 might have on our results of operations and financial condition.

4. Investment Securities

Investment securities at December 31, 2006 and 2005 are as follows:

2006	Amortized cost	Unrealized gains	Unrealized (losses)	Fair value
		(in thousands)		
Available-for-sale securities:				
Mortgage-backed securities	$ 12	1	—	13
Municipal bonds	6,985	199	—	7,184
Affiliated mutual funds	22,486	7,346	(116)	29,716
	29,483	7,546	(116)	36,913
Trading securities:				
Mortgage-backed securities	124	—	—	124
Municipal bonds	510	—	—	510
Corporate bonds	340	—	—	340
Common stock	46	—	—	46
Affiliated mutual funds	10,196	—	—	10,196
	11,216	—	—	11,216
Total investment securities	$40,699	7,546	(116)	48,129

4. Investment Securities (Continued)

2005	Amortized cost	Unrealized gains	Unrealized (losses)	Fair value
		(in thousands)		
Mortgage-backed securities	$ 198	16	—	214
Municipal bonds	12,477	157	(500)	12,134
Corporate bonds	810	—	(91)	719
Affiliated mutual funds	21,169	8,764	(6)	29,927
Trading securities (1)	8,707	—	—	8,707
	$43,361	8,937	(597)	51,701

(1) Comprised of affiliated mutual funds.

Effective June 30, 2004, the Company began matching mutual fund investment holdings to the funding obligations created by its deferred compensation plans. These plans allow employees to choose investment vehicles in which to invest their deferred compensation, primarily from Company sponsored mutual funds. Certain available-for-sale mutual fund holdings totaling $10.0 million were reclassified to trading securities in 2004, and a gain of $1.9 million was recognized during 2004 as a result of this reclassification.

As of December 31, 2006, $6.0 million of our mutual funds classified as available-for-sale had market values below carrying values, with an aggregate unrealized loss of $0.1 million. These mutual funds have been in an unrealized loss position for less than 12 months.

We assess the carrying value of investments in debt and equity securities each quarter to determine whether an other than temporary decline in fair value exists. We consider factors affecting the issuer and the industry the issuer operates in, general market trends including interest rates, and our ability and intent to hold an investment until it has recovered. Consideration is given to the length of time an investment's market value has been below carrying value and prospects for recovery to carrying value. Based upon our assessment of these mutual funds, and our intent to hold them until they have recovered, we determined that a write-down was not appropriate at this time.

Mortgage-backed securities and municipal bonds accounted for as available-for sale and held as of December 31, 2006 mature as follows:

	Amortized cost	Fair value
	(in thousands)	
After ten years	$6,997	7,197
	$6,997	7,197

4. Investment Securities (Continued)

Mortgage-backed securities, municipal bonds and corporate bonds accounted for as trading and held as of December 31, 2006 mature as follows:

	Amortized cost	Fair value
	(in thousands)	
After ten years	$974	974
	$974	974

Investment securities with fair value of $15.5 million, $68.7 million and $7.3 million were sold during 2006, 2005 and 2004, respectively. A net gain of $3.3 million was recognized during 2006 from the sale of $14.8 million in available-for-sale securities. During 2005, $59.6 million of trading securities were sold, of which approximately $57.4 million were proceeds from the sale of certificates of deposit previously held as an appeal bond related to a legal matter. A net gain of $1.0 million was recognized during 2005 from the sale of $9.1 million in available-for-sale securities. In 2004, all securities sales were from the trading portfolio.

The aggregate carrying amount of our equity method investments, classified as other assets, was $3.6 million at December 31, 2006 and December 31, 2005. At December 31, 2006 our remaining investment consists of a limited partnership interest in venture capital funds. During 2005, we sold our entire interest in another venture capital fund for approximately $2.0 million and recognized a gain on the transaction of $0.6 million.

5. Acquisitions

Securian Strategic Alliance Agreement

In 2003, the Company entered into a Strategic Alliance Agreement with Securian Financial Group, Inc. (“Securian”), through which we agreed to become investment adviser of substantially all managed equity assets of Advantus Capital Management, Inc. (“Advantus”). Advantus is a subsidiary of Securian and is an affiliate of Minnesota Life Insurance Company.

In 2003, we paid $31.8 million (inclusive of acquisition costs) to purchase the rights to manage nine actively managed equity funds of the Advantus Series Funds, a mutual fund family used within variable insurance products and 11 actively managed retail funds of the Advantus Funds. As a result of this purchase, we recorded $31.8 million of indefinite life intangible assets.

The purchase agreements contained provisions whereby the initial purchase price may be reduced based upon a calculation using certain levels of assets under management determinations made no later than 30 days after each of the first, second and third anniversaries of the closing date of each transaction. Assets at each anniversary date were at levels that did not require a reduction to the purchase price.

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. Gross goodwill was $212.1 million at December 31, 2006 and $234.0 million

6. Goodwill and Identifiable Intangible Assets (Continued)

at December 31, 2005. Accumulated amortization of goodwill was $38.6 million at December 31, 2006 and 2005. Our goodwill is not deductible for tax purposes.

Changes in the carrying amount of goodwill for the periods presented were as follows:

	2006 (in thousands)
December 31, 2005 balance, net of accumulated amortization	$195,309
Goodwill impairment	(20,000)
Adjustment to goodwill related to MIMI acquisition	(1,876)
Goodwill, net	$173,433

Goodwill is not amortized, but instead is reviewed annually and when events or circumstances occur which indicate that goodwill might be impaired. Impairment of goodwill is tested at the Company's reporting unit level. To determine fair value, our review process uses the income and market approaches. In performing the analysis, we use the best information available under the circumstances, including reasonable and supportable assumptions and projections. If the carrying amount of the reporting unit exceeds its implied fair value, goodwill is considered impaired and a second step is performed to measure the amount of impairment loss, if any.

Based on our annual review of goodwill in the second quarter of 2006, in accordance with SFAS No. 142, *"Goodwill and Other Intangible Assets,"*, we recorded an impairment charge of $20.0 million related to our subsidiary, ACF. Factors that led to this conclusion included, but were not limited to, the negative impact of the decline in ACF's assets under management and diminished involvement of ACF's investment staff in mutual fund advisory responsibilities. Asset redemptions have significantly impacted ACF's ability to achieve and maintain profitability, and therefore have adversely impacted its earnings potential. ACF's remaining unamortized goodwill balance at December 31, 2006 was $7.2 million.

The goodwill impairment charge was not deductible for income tax purposes and as a result, no tax benefit has been recognized for the goodwill impairment charge.

Our acquisition in 2002 of Mackenzie Investment Management Inc., adviser of the Ivy Funds sold in the United States, included commitments for obligations under an operating lease for office space in Boca Raton, Florida. In 2006, based on favorable changes to our estimate of the lease liability, we decreased goodwill by approximately $1.9 million.

The carrying value of identifiable intangible assets (all considered indefinite lived) at December 31, 2006 and 2005 are summarized as follows:

	2006	2005
	(in thousands)	
Unamortized intangible assets:		
Mutual fund management advisory contracts	$38,699	38,699
Mutual fund subadvisory management contracts	16,300	16,300
Total	$54,999	54,999

7. Property and Equipment

A summary of property and equipment at December 31, 2006 and 2005 is as follows:

	2006	2005	Estimated useful lives
	(in thousands)		
Leasehold improvements	$ 5,481	3,969	1 - 15 years
Furniture and fixtures	22,795	21,163	3 - 10 years
Equipment and machinery	21,431	21,160	3 - 20 years
Data processing equipment and computer software	53,923	49,263	3 - 10 years
Property and equipment, at cost	103,630	95,555	
Accumulated depreciation	(52,755)	(42,592)	
Property and equipment, net	$ 50,875	52,963	

Depreciation expense was $11.7 million, $10.3 million and $9.1 million during the years ended December 31, 2006, 2005 and 2004, respectively.

8. Indebtedness

On August 15, 2000, the Company filed a $400.0 million shelf registration, whereby proceeds received could be used for general corporate purposes, including the repayment of short-term debt outstanding. On January 18, 2001, the Company issued $200.0 million in principal amount 7.50% senior notes due in January 2006 (the "7.50% Notes"), resulting in net proceeds of approximately $197.6 million (net of discounts, commissions and expenses). Interest was payable semi-annually on January 18 and July 18 at a fixed rate of 7.50% per annum.

On March 12, 2002, the 7.50% Notes were effectively converted to variable rate debt by entering into an interest rate swap agreement whereby we agreed with another party to exchange, at specified intervals, the difference between the fixed-rate and various floating-rate interest amounts, calculated using a notional amount of $200.0 million. The difference in the floating-rate interest paid and the 7.50% fixed-rate interest received was recorded as an adjustment to interest expense during the period that the related debt was outstanding. The change in the fair value of the interest rate swap was recorded on the consolidated balance sheet by adjusting the carrying amounts of the 7.50% Notes by an offsetting amount for the swap.

Under SFAS No. 133, *"Accounting for Derivative Instruments and Hedging Activities,"* ("SFAS No. 133") we accounted for the interest rate swap as a fair value hedge of the Notes. This interest rate swap was considered 100% effective in hedging the changes in the fair value of the 7.50% Notes arising from changes in interest rates, and accordingly, there was no impact on earnings resulting from any ineffectiveness associated with this transaction. No fair value adjustment was necessary for the swap at December 31, 2005 as the term of the swap expired on January 18, 2006.

During 2005, the Company entered into two forward starting interest rate swap agreements that had five year fixed swap rates of 4.57% and 4.84%, respectively, on notional amounts of $100 million for each swap. The swaps were put in place to hedge against changes in forecasted interest payments attributable to

8. Indebtedness (Continued)

changes in the LIBOR swap rate between the time we entered into the swap agreement and the time we anticipated refinancing the 7.50% Notes in January 2006. We assessed the effectiveness of the swaps as hedges at their inception and at December 31, 2005, and we considered those swaps to be completely effective cash flow hedges under SFAS No. 133. As of December 31, 2005, net unrealized gains attributed to the forward swap cash flow hedges were approximately $1.6 million and were included as a component of other comprehensive income.

On January 13, 2006, the Company issued $200 million in principal amount 5.60% senior notes due 2011 (the "New Notes") resulting in net proceeds of approximately $198.2 million (net of discounts, commissions and estimated expenses). The Company used the net proceeds, together with cash on hand, to repay the entire $200 million aggregate principal amount outstanding of its 7.50% Notes. The New Notes represent senior unsecured obligations and are rated "Baa2" by Moody's and "BBB" by Standard & Poor's. Interest is payable semi-annually on January 15 and July 15 at a fixed rate of 5.60% per annum. The Company may, at its option, call the New Notes at any time pursuant to a make whole redemption provision, which would compensate holders for any changes in interest rate levels of the notes upon early extinguishment. The Company currently has no intention to call the New Notes.

On January 10, 2006, the Company terminated the two 2005 forward interest rate swap agreements upon the closing of the New Notes. In connection with the termination of the swap agreements, the Company received a net cash settlement of $1.1 million. The Company's gain on these transactions was deferred in accumulated other comprehensive income and is being amortized into earnings as a reduction to interest expense over the five year term of the New Notes.

The Company entered into a three-year revolving credit facility (the "Credit Facility") with various lenders, effective October 7, 2005, which initially provides for borrowings of up to $200 million and replaced the Company's previous 364-day revolving credit facility. At December 31, 2006 and 2005, there were no borrowings outstanding under the Credit Facility. Borrowings under the Credit Facility bear interest at various rates including adjusted LIBOR or an alternate base rate plus, in each case, an incremental margin based on the Company's credit rating. The Credit Facility also provides for a facility fee on the daily aggregate amount of commitment under the revolving facility (whether or not utilized). The facility fee is also based on the Company's credit rating level. The most restrictive provisions of the credit agreement require the Company to maintain a consolidated leverage ratio not to exceed 3.0 to 1.0 for four consecutive quarters and a consolidated interest coverage ratio of not less than 4.0 to 1.0 for four consecutive quarters. The Company was in compliance with these covenants and similar covenants in prior facilities for all years presented.

8. Indebtedness (Continued)

The following is a summary of long-term debt at December 31, 2006 and 2005:

	2006	2005
	(in thousands)	
Principal amount unsecured 5.60% senior notes due in 2011	$200,000	—
Discount on unsecured 5.60% senior notes due in 2011	(58)	—
Principal amount unsecured 7.50% senior notes due in 2006	—	200,000
Discount on unsecured 7.50% senior notes due in 2006	—	(24)
Total indebtedness	199,942	199,976
Current maturities	—	(1,746)
Total long-term obligations	$199,942	198,230

9. Income Taxes

The provision for income taxes for the years ended December 31, 2006, 2005 and 2004 consists of the following:

	2006	2005	2004
		(in thousands)	
Currently payable:			
Federal	$39,770	35,362	43,702
State	3,823	3,333	2,878
	43,593	38,695	46,580
Deferred taxes	(505)	(2,866)	9,465
Provision for income taxes	$43,088	35,829	56,045

9. Income Taxes (Continued)

The tax effect of temporary differences that give rise to significant portions of deferred tax liabilities and deferred tax assets at December 31, 2006 and 2005 are as follows:

	2006	2005
	(in thousands)	
Deferred tax liabilities:		
Deferred selling costs	$ (5,711)	(4,727)
Property and equipment	(10,319)	(12,292)
Benefit plans	(2,867)	(3,306)
Identifiable intangible assets	(8,306)	(8,490)
Unrealized gains on derivatives	(324)	(593)
Unrealized gains on available for sale investment securities	(2,660)	(3,086)
Purchase of fund assets	(2,629)	(1,898)
Prepaid expenses	(1,349)	(1,257)
Other	(249)	(202)
Total gross deferred liabilities	(34,414)	(35,851)
Deferred tax assets:		
Acquisition lease liability	1,026	1,926
Additional pension and postretirement liability	6,392	3,022
Accrued expenses	7,276	7,505
Unrealized losses on investment securities	705	1,568
Nonvested stock	9,593	7,724
Unused state tax credits	263	—
State net operating loss carryover	2,908	2,229
Other	—	377
Total gross deferred assets	28,163	24,351
Valuation allowance	(2,908)	(2,229)
Net deferred tax (liability)	$ (9,159)	(13,729)

As of December 31, 2006 and December 31, 2005, one of the Company's subsidiaries has state net operating loss carryforwards in certain states in which that company files on a separate company basis. The deferred tax asset, net of federal tax effect, relating to the carryforwards as of December 31, 2006 and December 31, 2005 is approximately $2.9 million and $2.2 million, respectively. The carryforwards, if not utilized, will expire between 2011 and 2026. Management believes it is not more likely than not that the subsidiary will generate sufficient future taxable income in these states to realize the benefit of these state net operating loss carryforwards and, accordingly, a valuation allowance in the amount of $2.9 million and $2.2 million, respectively, has been established at December 31, 2006 and December 31, 2005. The Company generated state tax credits in 2006 that will expire in 2016 if not utilized. The Company anticipates these credits will be fully utilized prior to their expiration date. The following table reconciles the statutory federal income tax rate with our effective income tax rate for the years ended December 31, 2006, 2005 and 2004:

	2006	2005	2004
Statutory federal income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefits	1.7	1.4	1.3
Favorable resolution of outstanding income tax matters	—	(2.4)	(0.2)
State tax incentives	(1.2)	—	—
Nondeductible fines	4.7	0.8	(0.7)
Nondeductible goodwill impairment expense	7.8	—	—
Other items	0.3	2.5	—
Effective income tax rate	48.3%	37.3%	35.4%

10. Pension Plan and Postretirement Benefits Other Than Pensions

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

A reconciliation of the funded status of the pension and medical plans and the assumptions related to the obligations at December 31, 2006, 2005 and 2004 follows:

	Pension Benefits			Other Postretirement Benefits		
	2006	2005	2004	2006	2005	2004
	(in thousands)					
Change in projected benefit obligation						
Net benefit obligation at beginning of year	$86,530	82,829	71,376	3,715	5,441	5,509
Service cost	5,446	5,598	4,664	299	422	472
Interest cost	4,830	4,824	4,273	209	306	339
Plan amendments	—	—	—	165	—	—
Benefits and expenses paid	(3,496)	(6,604)	(2,542)	(244)	(144)	(75)
Actuarial (gain)/loss	(4,990)	(117)	5,058	(107)	(2,418)	(892)
Retiree contributions	—	—	—	137	108	88
Net benefit obligation at end of year	$88,320	86,530	82,829	4,174	3,715	5,441

	Pension Benefits (1)			Other Postretirement Benefits (1)		
	2006	2005	2004	2006	2005	2004
	(in thousands)					
Change in plan assets						
Fair value of plan assets at beginning of year	$74,445	68,629	64,087	—	—	—
Actual return on plan assets	4,940	5,420	2,084	—	—	—
Employer contributions (receipts)	7,000	7,000	5,000	107	36	(13)
Retiree contributions	—	—	—	137	108	88
Benefits paid	(3,496)	(6,604)	(2,542)	(244)	(144)	(75)
Fair value of plan assets at end of year	$82,889	74,445	68,629	—	—	—
Funded status at end of year	$ (5,431)	(12,085)	(14,200)	(4,174)	(3,715)	(5,441)
Unrecognized transition obligation	NA	67	73	NA	—	—
Unrecognized prior service cost	NA	4,585	5,020	NA	258	281
Unrecognized net actuarial loss	NA	19,333	21,096	NA	(889)	1,618
Net asset (liability) recognized at end of year	NA	11,900	11,989	NA	(4,346)	(3,542)

(1) NA refers to not applicable under SFAS No. 158, *"Employers' Accounting for Defined Benefit Pension and Other Retirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132-R"* ("SFAS No. 158")

10. Pension Plan and Postretirement Benefits Other Than Pensions (Continued)

	Pension Benefits (1)			Other Postretirement Benefits (1)		
	2006	2005	2004	2006	2005	2004
	(in thousands)					
Amounts recognized in the statement of financial position prior to SFAS No. 158						
Accrued benefit cost	NA	$ (920)	(7,160)	NA	(4,346)	(3,542)
Intangible asset	NA	4,652	5,093	NA	—	—
Accumulated other comprehensive income	NA	8,168	14,056	NA	—	—
Net asset (liability) recognized at end of year	NA	11,900	11,989	NA	(4,346)	(3,542)
Amounts recognized in the statement of financial position under SFAS No. 158						
Noncurrent assets	$ —	NA	NA	—	NA	NA
Current liabilities	—	NA	NA	(209)	NA	NA
Noncurrent liabilities	(5,431)	NA	NA	(3,965)	NA	NA
Net amount recognized at end of year	$ (5,431)	NA	NA	(4,174)	NA	NA
Amounts not yet reflected in net periodic benefit cost and included in accumulated other comprehensive income						
Transition asset (obligation)	$ (62)	NA	NA	—	NA	NA
Prior service credit (cost)	(4,149)	NA	NA	(400)	NA	NA
Accumulated gain (loss)	(14,143)	NA	NA	958	NA	NA
Accumulated other comprehensive income	(18,354)	NA	NA	558	NA	NA
Cumulative employer contributions in excess of net periodic benefit cost	12,923	NA	NA	(4,732)	NA	NA
Net amount recognized at end of year	$ (5,431)	NA	NA	(4,174)	NA	NA
Weighted average assumptions used to determine benefit obligation at December 31:						
Discount rate	6.00%	5.75%	5.75%	6.00%	5.75%	5.75%
Rate of compensation increase	3.86%	3.86%	3.86%	Not applicable		

(1) NA refers to not applicable under SFAS No. 158.

The accumulated benefit obligation for the Pension Plan was $77.1 million and $75.4 million at December 31, 2006 and 2005, respectively.

We adopted SFAS No. 158 for the fiscal year ended December 31, 2006. SFAS No. 158 requires employers to recognize the overfunded or underfunded status of a defined benefit post-retirement plan as an asset or liability in its statement of financial position, measured as the difference between the fair value of plan assets and the benefit obligation. Further, this statement requires employers to recognize changes

10. Pension Plan and Postretirement Benefits Other Than Pensions (Continued)

in that funded status in the year in which the changes occur through comprehensive income. The effect of applying SFAS No. 158 on individual line items in the consolidated balance sheet at December 31, 2006 follows:

	Before Application of SFAS No. 158	Adjustments (in thousands)	After Application of SFAS No. 158
Accrued pension and post retirement costs	$ (8,191)	17,796	9,605
Noncurrent deferred income tax liabilities	18,474	(6,392)	12,082
Total liabilities	406,610	11,404	418,014
Accumulated other comprehensive income	5,352	(11,404)	(6,052)
Total stockholders' equity	256,104	(11,404)	244,700

Our Pension Plan asset allocation at December 31, 2006 and 2005 and our target allocation for 2007 are as follows:

Plan assets by category	Target Allocation at January 1, 2007	Percentage of Plan Assets at December 31, 2006
Large Cap Growth	40%	42%
Asset Strategy Fund	30%	31%
Core Plus Fixed Income	27%	24%
Science and Technology	3%	3%
Total	100%	100%

Plan assets by category	Percentage of Plan Assets at December 31, 2006	Percentage of Plan Assets at December 31, 2005
Equity securities	67%	65%
Debt securities	33%	35%
Total	100%	100%

The disclosure rate assumptions used to determine the postretirement obligations at December 31, 2006 and December 31, 2005 and the postretirement expenses in 2006 were based on the Mercer Bond Model. This model was designed by Mercer Human Resource Consulting to provide a means for plan sponsors to value the liabilities of their postretirement benefit plans. The Mercer Bond Model calculates the yield on a theoretical portfolio of high-grade corporate bonds (rated "Aa" or better) with cash flows that generally match our expected benefit payments. To the extent scheduled bond proceeds exceed the estimated benefit payments in a given period, the yield calculation assumes those excess proceeds are reinvested at the one-year forward rates implied by the Citigroup Pension Discount Curve. Prior to using the Mercer Bond Model, the discount rate assumptions for the postretirement expenses in 2004 were based on investment yields available on "AA" rated long-term corporate bonds.

10. Pension Plan and Postretirement Benefits Other Than Pensions (Continued)

The primary investment objective is to maximize the growth of the Pension Plan assets to meet the projected obligations to the beneficiaries over a long period of time, and to do so in a manner that is consistent with the Company's earnings strength and risk tolerance. Asset allocation policy is the most important decision in managing the assets and it is reviewed regularly. The asset allocation policy considers the Company's financial strength and long-term asset class risk/return expectations since the obligations are long-term in nature. On an on-going basis, the target allocations for pension assets are as summarized in the table above. The assets are well diversified and are managed by our in-house investment professionals.

Large cap growth consists of a diversified portfolio of common stocks issued by higher-quality growth-oriented large to medium sized domestic and to a lesser extent, foreign companies. Asset Strategy Fund invests in most any market that is believed to offer the greatest probability of return or, alternatively, that provides the highest degree of safety in uncertain times. Although this style may allocate its assets among stocks, bonds and short-term investments, the allocation is typically weighted toward stocks. Core plus fixed income invests primarily in investment-grade debt securities issued in the United States. Science and technology concentrates its investments primarily in equity securities of domestic and foreign companies that benefit by the application of science and technological discoveries.

The 7.75% expected long-term rate of return on Pension Plan assets reflects management's expectations of long-term average rates of return on funds invested to provide for benefits included in the projected benefit obligations. The expected return is based on the outlook for inflation, fixed income returns and equity returns, while also considering historical returns, asset allocation and investment strategy.

The components of net periodic pension and other postretirement costs and the assumptions related to the costs consisted of the following for the years ended December 31, 2006, 2005 and 2004.

	Pension Benefits			Other Postretirement Benefits		
	2006	2005	2004	2006	2005	2004
	(in thousands)					
Components of net periodic benefit cost:						
Service cost	$ 5,446	5,598	4,664	299	422	472
Interest cost	4,830	4,824	4,273	209	306	339
Expected return on plan assets	(5,694)	(5,208)	(5,199)	—	—	—
Actuarial (gain) loss amortization	954	1,434	424	(38)	88	171
Prior service cost amortization	436	436	435	23	23	23
Transition obligation amortization	5	5	5	—	—	—
Net periodic benefit cost	$ 5,977	7,089	4,602	493	839	1,005
Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:						
Discount rate	5.75%	5.75%	6.25%	5.75%	5.75%	6.25%
Expected return on plan assets	7.75%	7.75%	8.25%		N/A	
Rate of compensation increase	3.86%	3.86%	3.86%		N/A	

10. Pension Plan and Postretirement Benefits Other Than Pensions (Continued)

Cash contributions to (receipts from) the pension and other postretirement plans for the years 2006 and 2005 were as follows:

	Pension Benefits	Postretirement Benefits
	(in thousands)	
Cash Contributions		
2006	$7,000	107
2005	7,000	36

We expect the following benefit payments to be paid which reflect future service, as appropriate:

	Pension Benefits	Postretirement Benefits
	(in thousands)	
2007	$ 3,691	218
2008	4,803	267
2009	4,875	288
2010	4,921	330
2011	6,589	363
2012 through 2016	44,188	2,206
	$69,067	3,672

Our policy with respect to funding the Pension Plan is to fund at least the minimum required by the Employee Retirement Income Security Act of 1974, as amended, and not more than the maximum amount deductible for tax purposes. All contributions made to the Pension Plan for 2006 and 2005 were voluntary. We anticipate that the 2007 contribution will be made from cash generated from operations and will be in the range of $5.0 to $10.0 million.

All contributions to other postretirement medical benefits are voluntary, as the postretirement medical plan is not funded, and is not subject to any minimum regulatory funding requirements. The contributions for each year represent claims paid for medical expenses, and we anticipate making the 2007 expected contribution with cash generated from operations. Contributions by participants to the postretirement plan were $137 thousand and $108 thousand for the years ending December 31, 2006 and 2005, respectively. The 2006 postretirement medical plan amendment was due to the addition of post age 65 benefits for a former employee.

For measurement purposes, the initial health care cost trend rate was 10% for 2007 and 2006 and 11% for 2005. The health care cost trend rate reflects anticipated increases in health care costs. The initial assumed growth rate of 10% in the first year is assumed to gradually decline over the next five years to a rate of 5% in the fifth year. The effect of a 1% annual increase in assumed cost trend rates would increase the December 31, 2006 accumulated postretirement benefit obligation by approximately $408 thousand, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year ended December 31, 2006 by approximately $68 thousand. The effect of a 1% annual decrease in assumed cost trend rates would decrease the December 31, 2006 accumulated postretirement benefit

10. Pension Plan and Postretirement Benefits Other Than Pensions (Continued)

obligation by approximately $355 thousand, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year ended December 31, 2006 by approximately $57 thousand.

We also sponsor the Waddell & Reed Financial, Inc. Supplemental Executive Retirement Plan, as amended and restated (the "SERP"), a non-qualified deferred compensation plan covering eligible employees. The SERP provides certain benefits for Company officers that the Pension Plan is prevented from providing because of compensation and benefit limits in the Internal Revenue Code.

The SERP was adopted to supplement the annual pension paid to certain senior executive officers. Each calendar year, the Compensation Committee of the Board of Directors (the "Compensation Committee") credits participants' SERP accounts with (i) an amount equal to 4% of the executive's base salary, less the amount of the maximum employer matching contribution available under our 401(k) plan, and (ii) a non-formula award, if any, as determined by the Compensation Committee in its discretion. Additionally, each calendar year, participants' accounts are credited (or charged) with an amount equal to the performance of certain hypothetical or investment vehicles since the last preceding year. Upon a participant's separation, or at such other time based on a pre-existing election by a participant, benefits accumulated under the SERP are payable in installments or in a lump sum. As of December 31, 2006 and 2005, the aggregate liability to participants was $3.3 million and $3.1 million, respectively.

At December 31, 2006, the accrued pension and postretirement liability recorded on the balance sheet was comprised of accrued pension costs of $5.4 million, an accrued liability for SERP benefits of $3.3 million, and a liability for postretirement benefits in the amount of $4.0 million. The current portion of postretirement liability of $0.2 million is included in other current liabilities on the balance sheet. At December 31, 2005, the accrued pension and postretirement liability recorded on the balance sheet was comprised of accrued pension costs of $0.9 million, an accrued liability for SERP benefits of $3.1 million, and a liability for postretirement benefits in the amount of $4.3 million.

11. Employee Savings Plan

We sponsor a defined contribution plan that qualifies under Section 401(k) of the Internal Revenue Code to provide retirement benefits to substantially all of our employees following the completion of an eligibility period. As allowed under Section 401(k), the plan provides tax-deferred salary deductions for eligible employees. Our matching contributions to the plan for the years ended December 31, 2006, 2005 and 2004 were $3.4 million, $3.1 million and $2.8 million, respectively.

12. Stockholders' Equity

Earnings per Share

For the years ended December 31, 2006, 2005 and 2004 earnings per share were computed as follows:

	2006	2005	2004
	(in thousands, except per share amounts)		
Net income	$46,112	60,121	102,165
Weighted average shares outstanding—basic	81,353	80,908	80,613
Dilutive potential shares from stock options and certain nonvested stock awards	1,859	1,137	1,311
Weighted average shares outstanding—diluted	83,212	82,045	81,924
Earnings per share:			
Basic	$ 0.57	0.74	1.27
Diluted	$ 0.55	0.73	1.25

Anti-dilutive Securities

Options to purchase 2.79 million shares, 2.81 million shares and 2.84 million shares of Class A common stock ("common stock") were excluded from the dilutive earnings per share calculation for years ended December 31, 2006, 2005 and 2004, respectively because they were anti-dilutive. Excluded from the diluted earnings per share calculation were approximately 236 thousand shares, 40 thousand shares and 5 thousand shares of anti-dilutive nonvested stock for the years ended December 31, 2006, 2005 and 2004, respectively.

Dividends

The quarterly dividend rate paid on our common stock was $.15 per share. For the years ended December 31, 2006, 2005 and 2004, dividends paid to our stockholders were $50.6 million, $50.1 million and $49.5 million, respectively. As of December 31, 2006 and 2005, other current liabilities included $12.7 million and $12.6 million, respectively, for dividends payable to stockholders.

The Board of Directors approved an increase in the quarterly dividend on our common stock to $.17 per share beginning with our second quarter 2007 dividend, payable on May 1, 2007.

Common Stock Repurchases

The Board of Directors has authorized the repurchase of our common stock in the open market and/or private purchases. The acquired shares may be used for corporate purposes, including shares issued to employees in our stock-based compensation programs. There were 1,139,116 shares, 292,600 shares and 960,400 shares repurchased in the open market or in private purchases for the years ended December 31, 2006, 2005 and 2004, respectively.

13. Share-Based Compensation

The Company has three stock-based compensation plans: the Company 1998 Stock Incentive Plan, as amended and restated (the "SI Plan"), the Company 1998 Executive Stock Award Plan, as amended and

13. Share-Based Compensation (Continued)

restated (the "ESA Plan") and the Company 1998 Non-Employee Director Stock Award Plan, as amended and restated (the "NED Plan") (collectively, the "Stock Plans").

The SI Plan allows us to grant equity compensation awards, including, among other awards, non-qualified stock options and nonvested stock as part of our overall compensation program to attract and retain key personnel and encourage a greater personal financial investment in the Company. The Stock Plans also allow us to grant non-qualified stock options and/or nonvested stock to promote the long-term growth of the Company. A maximum of 30,000,000 shares of common stock are authorized for issuance under the SI Plan. A maximum of 3,750,000 and 1,200,000 shares of common stock are authorized for issuance under the ESA Plan and NED Plan, respectively. In total, 15,002,799 shares of common stock are available for issuance as of December 31, 2006 under these plans. In addition, we make incentive payments under the Company 2003 Executive Incentive Plan, as amended and restated (the "EIP") in the form of cash, stock options, nonvested stock or a combination thereof. Incentive awards paid under the EIP in the form of stock options or nonvested stock are issued out of shares reserved for issuance under the SI and ESA Plans. Generally, shares of common stock covered by terminated, surrendered or cancelled options, by forfeited nonvested stock, or by the forfeiture of other awards that do not result in issuance of shares of common stock are again available for awards under the plan from which they were terminated, surrendered, cancelled or forfeited.

Under our Stock Plans, the exercise price of a stock option is equal to the closing market price of Company stock on the date of grant. The maximum term of non-qualified options granted under the SI Plan is ten years and two days and the options generally vest in 33⅓% increments on the second, third and fourth anniversaries of the grant date. The maximum term of non-qualified options granted under the ESA Plan and NED Plan is 11 years and the options generally vest 10% each year, beginning on the first anniversary of the grant date. Our Stock Plans include a Stock Option Restoration Program feature (the "SORP") that allows, on the first trading day of August, an employee to pay the exercise price on vested in-the-money options by surrendering common stock of the Company that has been owned for at least six months. This feature also permits an employee exercising an option to be granted new options in an amount equal to the number of common shares used to satisfy both the exercise price and withholding taxes due upon exercise. New options are granted with an expiration date equal to that of the original option and vest six months after the grant date. The SORP results in a net issuance of shares of common stock and fewer stock options outstanding. We receive a current income tax benefit for stock option exercises.

Nonvested stock awards are valued on the date of grant, have no purchase price and generally vest over four years in 33⅓% increments on the second, third and fourth anniversaries of the grant date. Restricted shares issued in the stock option tender offer were fully vested upon issuance, but remain subject to transfer restrictions that lapse in 33⅓% increments annually beginning March 14, 2005. The Company also issues nonvested stock awards to our financial advisors (our sales force) who are considered independent contractors. These awards have the same terms as awards issued to employees, however changes in the Company's share price result in variable compensation expense over the vesting period. Under the Stock Plans, nonvested shares are forfeited upon the termination of employment with the Company or service on the Board, dependent upon the circumstances of termination. Except for restrictions placed on the transferability of nonvested stock, holders of nonvested stock have full stockholders' rights during the term of restriction, including voting rights and the rights to receive cash dividends.

13. Share-Based Compensation (Continued)

On April 25, 2005, the Compensation Committee of the Board approved the accelerated vesting of all then outstanding unvested options previously awarded to employees, financial advisors, officers and directors. This resulted in the accelerated vesting of 624,267 options. Of these options, 447,497 were "in-the-money" options having an exercise price less than the then current market price of the Company's common stock and a weighted average exercise price of $13.90 per share. In order to prevent unintended personal benefits to directors and executive officers, the Board of Directors imposed restrictions on any shares received through the exercise of accelerated options held by those individuals. These restrictions prevent the sale of any stock obtained through exercise of an accelerated option prior to its original vesting date, other than the disposition of stock as payment for the exercise price of options and associated income taxes, if any.

The Board approved the accelerated vesting of these options based on the belief that it was in the best interest of the stockholders to reduce future compensation expense that the Company would otherwise be required to report in its statement of operations upon adoption of SFAS No. 123R on January 1, 2006. We anticipate that holders of "in-the-money" accelerated options will remain employed with the Company throughout the original vesting term of such options, and therefore, no expense will be recorded for these options unless option holders are able to exercise an option that would have expired unexercisable pursuant to its original terms. Subsequent to the Compensation Committee's decision to accelerate the vesting of outstanding options, the separation of employment of the Company's former chief executive officer triggered the remeasurement of compensation cost. This remeasurement resulted in additional compensation cost of $1.4 million during 2005.

(a) Stock Options

A summary of stock option activity and related information for the year ended December 31, 2006 follows:

	Options	Weighted average exercise price	Weighted average remaining contractual term (in years)
Outstanding, beginning of year	7,115,837	$22.27	3.24
Granted	—	—	
Exercised	(988,910)	16.37	
Granted in restoration	7,410	21.20	
Exercised in restoration	(8,219)	17.87	
Terminated/Canceled	(7,559)	27.10	
Outstanding, end of year	6,118,559	$23.22	2.32
Exercisable, end of year	6,111,149	$23.22	2.32

The aggregate intrinsic value of outstanding options and exercisable options as of December 31, 2006 was $37.0 million and $36.9 million, respectively. The total intrinsic value (on date of exercise) of SORP options exercised during the years ended December 31, 2006, 2005 and 2004 was $8.7 million, $2.6 million and $6.2 million, respectively.

13. Share-Based Compensation (Continued)

SORP options with vesting periods of six months were the only options granted during 2006, 2005 and 2004. Compensation expense related to options issued under the SORP of $157 thousand was recorded for the year ended December 31, 2006 and primarily related to 2005 SORP grants, which are now fully amortized. There was no compensation expense recorded in 2005 and 2004. The weighted average fair value of options granted during the years ended December 31, 2006, 2005 and 2004 were $2.94, $3.01 and $1.54, respectively.

The grant date fair value of options granted in 2006, 2005 and 2004 have been calculated using a Black-Scholes option-pricing model with assumptions as follows:

	2006	2005	2004
Dividend yield	2.80%	3.10%	3.10%
Risk-free interest rate	4.92%	4.03%	2.05%
Expected volatility	22.50%	27.10%	21.79%
Expected life (in years)	2.09	2.24	1.00

(b) Nonvested Stock

A summary of nonvested share activity and related fair value for the year ended December 31, 2006 follows:

	Nonvested Stock Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2005	2,686,569	$21.71
Granted	1,329,517	23.81
Vested	(721,055)	22.22
Forfeited	(85,458)	21.86
Nonvested at December 31, 2006	3,209,573	$22.46

For the years ended December 31, 2006, 2005 and 2004, compensation expense related to nonvested stock totaled $21.7 million, $17.8 million and $10.3 million, respectively. The related income tax benefit recognized was $7.9 million, $6.6 million and $3.9 million for the years ended December 31, 2006, 2005 and 2004, respectively. As of December 31, 2006, the remaining unamortized expense of $45.8 million is expected to be recognized over a weighted average period of 2.4 years.

The total fair value of shares vested (at vest date) during the years ended December 31, 2006, 2005 and 2004 was $16.9 million, $6.5 million and $3.2 million, respectively. The Company permits employees the right to tender a portion of their vested shares to the Company to satisfy the minimum tax withholding obligations of the Company with respect to vesting of the shares. For the year ended December 31, 2007, we expect to repurchase approximately 280,000 shares for employees who elect to tender shares to cover their minimum tax withholdings.

For nonvested stock awards granted prior to the adoption of SFAS No. 123R, the Company will continue to recognize compensation expense over the contractual vesting period. Had compensation expense for nonvested stock awards issued prior to January 1, 2006 been determined based on the date a participant first becomes eligible for retirement, the Company's net income would have been increased by $280 thousand for the year ended December 31, 2006 and decreased by $206 thousand for the year ended December 31, 2005.

14. Uniform Net Capital Rule Requirements

Three of our subsidiaries, Waddell & Reed, Inc. ("W&R"), Legend Equities Corporation ("LEC"), and Ivy Funds Distributor, Inc. ("IFDI") are registered broker/dealers and members of the NASD. Broker/dealers are subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15.0 to 1.0. The difference between net capital and stockholders' equity is the non-allowable assets that are excluded from net capital. Net capital and aggregated indebtedness information for our broker/dealer subsidiaries is presented in the following table as of December 31, 2006 and 2005 (in thousands):

	2006			2005		
	W&R	LEC	IFDI	W&R	LEC	IFDI
Net capital	$ 45,748	893	8,159	69,642	1,220	3,419
Required capital	7,756	243	674	6,107	162	241
Excess of required capital	$ 37,992	650	7,485	63,535	1,058	3,178
Ratio of aggregate indebtedness to net capital	2.54 to 1.0	4.07 to 1.0	1.24 to 1.0	1.32 to 1.0	1.99 to 1.0	1.06 to 1.0

15. Rental Expense and Lease Commitments

We lease our home office buildings and certain sales and other office space under long-term operating leases. Rent expense was $18.3 million, $18.0 million and $17.0 million, for the years ended December 31, 2006, 2005 and 2004, respectively. Future minimum rental commitments under non-cancelable operating leases are as follows (in thousands):

2007	$14,693
2008	11,895
2009	9,820
2010	7,568
2011	5,460
Thereafter	15,699
	$65,135

New leases are expected to be executed as existing leases expire. Thus, future minimum lease commitments are not expected to be less than those in 2006.

16. Related Party Transactions

We earn investment management fees from the Funds for which we also act as an investment adviser, pursuant to an investment management agreement with each Fund. In addition, we have agreements with the Funds pursuant to Rule 12b-1 under the Investment Company Act of 1940, as amended, pursuant to which distribution and service fees are collected from the Funds for distribution of mutual fund shares for costs such as advertising and commissions paid to broker/dealers and for providing ongoing services to shareholders of the Funds and/or maintaining shareholder accounts. We also earn service fee revenues by providing various services to the Funds and their shareholders pursuant to a shareholder servicing agreement with each Fund (except the Target Funds) and an accounting service agreement with each Fund. Certain of our officers and directors are also officers, directors and/or trustees for the various Funds for which we act as an investment adviser. These agreements are approved or renewed on an annual basis by each Fund's board of directors/trustees, including a majority of the disinterested members. Accounts receivable include amounts due from the Funds for aforementioned services.

17. Litigation and Regulatory Settlements

SEC/New York Attorney General/Kansas Securities Commission

During 2006, we recorded a charge of $55.0 million related to settlement with the SEC, the New York Attorney General and the Kansas Securities Commission regarding market timing allegations, $12 million of which represented non-deductible penalties. The charge is included in general and administrative expenses. In addition, effective October 1, 2006, the Company instituted its annual $5.0 million investment management fee waiver pursuant to the New York Attorney General settlement by adjusting management fee rates on certain funds.

17. Litigation and Regulatory Settlements (Continued)

Williams Excessive Fee Litigation

On May 30, 2006, the investment advisor and underwriter subsidiaries of the Company for the Ivy Funds were dismissed from the case with prejudice. On September 25, 2006 the remainder of this case was dismissed with prejudice. The negotiations and discussions leading up to, and the terms of, the dismissal are confidential.

Torchmark Corporation and NASD Enforcement Action

During 2005, we recorded a charge of $38.2 million related to settlements of outstanding litigation, including matters with the Enforcement Department of NASD Regulation and Torchmark Corporation (Torchmark). The charge is included in general and administrative expenses. During the second quarter of 2006, all remaining restitution was paid and the matter was resolved.

During 2006, the Arbitration Panel adjudicating the Torchmark matter ruled against the Company and determined that the Company owed Torchmark $7.4 million. A reserve previously established largely covered this exposure and the remaining amount was immaterial to the Company's earnings.

Sawtelle Arbitration

On December 15, 2005, the Company settled this matter in its entirety for $7.9 million (beyond the approximate $2.0 million in compensatory damages and attorneys fees paid in years prior to periods covered by this report) and recorded a pre-tax charge of $6.1 million in 2005 related thereto.

18. 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.

19. Selected Quarterly Information (Unaudited)

	Quarter			
	First	Second	Third	Fourth
	(in thousands)			
2006				
Total revenues	$173,070	181,311	178,582	185,692
Net income (loss)	24,592(1)	(33,022)(2)	24,591(3)	29,951
Earnings (loss) per share:				
Basic	$ 0.30(1)	(0.40)(2)	0.30(3)	0.37
Diluted	$ 0.30(1)	(0.40)(2)	0.30(3)	0.36

	Quarter			
	First	Second	Third	Fourth
	(in thousands)			
2005				
Total revenues	$150,737	150,686	157,513	163,144
Net income (loss)	22,750	(7,087)(4)	24,532(5)	19,926(6)
Earnings (loss) per share:				
Basic	$ 0.28	(0.09)(4)	0.30(5)	0.25(6)
Diluted	$ 0.28	(0.09)(4)	0.30(5)	0.24(6)

(1) Includes a pre-tax charge of $1.9 million ($1.3 million net of tax) related to employee separation costs at ACF in response to a decline in investment performance and related loss of assets under management.

(2) Includes a pre-tax charge of $55.0 million ($39.4 million net of tax) to recognize our settlement with the SEC, New York Attorney General and Kansas Securities Commissioner related to market-timing allegations and a charge of $20.0 million (not deductible for income tax purposes) to recognize the impairment of goodwill associated with ACF.

(3) Includes charges associated with the resolution of the Williams litigation and expenses related to prior regulatory settlements.

(4) Includes a pre-tax charge of $41.3 million ($28.8 million net of tax) related to settlements of outstanding legal matters with Torchmark for actions in Alabama, California and Kansas; settlement with the NASD and a consortium of states relating to variable annuity sales practices; separation of employment payments to our former chief executive officer; and other employee separation payments related to the restructuring of the Advisors channel.

(5) Includes a tax benefit in the amount of $1.8 million relating to a change in determination of the deductibility of certain legal matters expensed in the second quarter of 2005.

(6) Includes a pre-tax charge of $6.1 million ($3.8 million net of tax) related to an NASD arbitration settlement with a former financial advisor.

WADDELL & REED FINANCIAL, INC.

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Exhibit No.	Exhibit Description
3.1	Restated Certificate of Incorporation of Waddell & Reed Financial, Inc. Filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q, File No. 333-43687, for the quarter ended June 30, 2006 and incorporated herein by reference.
3.2	Amended and Restated Bylaws of Waddell & Reed Financial, Inc. Filed as Exhibit 3.2 to the Company's Current Report on Form 8-K, File No. 333-43687, filed February 28, 2006 and incorporated herein by reference.
4.1	Specimen of Class A Common Stock Certificate, par value $0.01 per share. Filed as Exhibit 4.1 to the Company's Registration Statement on Form S-1/A, File No. 333-43687, on February 27, 1998 and incorporated herein by reference.
4.2	Rights Agreement, dated as of April 28, 1999, by and between Waddell & Reed Financial, Inc. and Computershare Trust Company, N.A., as successor to First Chicago Trust Company of New York, which includes the Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of the Company, as filed on May 13, 1999 with the Secretary of State of Delaware, as Exhibit A and the form of Rights Certificate as Exhibit B. Filed as Exhibit 4 to the Company's Quarterly Report on Form 10-Q, File No. 001-13913, for the quarter ended June 30, 1999 and incorporated herein by reference.
4.3	First Amendment to Rights Agreement, dated as of February 14, 2001, by and between Waddell & Reed Financial, Inc. and Computershare Trust Company, N.A., as successor to First Chicago Trust Company of New York. Filed as Exhibit 4.4 to the Company's Annual Report on Form 10-K, File No. 001-13913, for the year ended December 31, 2000 and incorporated herein by reference.
4.4	Indenture, dated as of January 18, 2001, by and between Waddell & Reed Financial, Inc. and JPMorgan Chase Bank, National Association. Filed as Exhibit 4.1(a) to the Company's Current Report on Form 8-K, File No. 001-13913, on February 5, 2001 and incorporated herein by reference.
4.5	First Supplemental Indenture, dated as of January 18, 2001 by and between Waddell & Reed Financial, Inc. and JPMorgan Chase Bank, National Association, including the form of the 7.50% notes due January 2006 as Exhibit A. Filed as Exhibits 4.1(b) and 4.2 to the Company's Current Report on Form 8-K, File No. 333-43687, on February 5, 2001 and incorporated herein by reference.
4.6	Second Supplemental Indenture, dated as of January 13, 2006, between Waddell & Reed Financial, Inc. and JP Morgan Trust Company, National Association, as trustee, and the form of the Global Note for the Company's 5.60% Notes due 2011 as Exhibit A. Filed as Exhibits 4.1 and 4.2 to the Company's Current Report on Form 8-K, File No. 333-43687, on January 13, 2006 and incorporated herein by reference.
4.7	Form of Indenture to be used in connection with the issuance of the Subordinated Debt Securities. Filed as Exhibit 4.7 to the Company's Form S-3/A, File No. 333-43682, on September 7, 2000 and incorporated herein by reference.

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Exhibit No.	Exhibit Description
10.1	General Agent Contract, dated as of October 20, 2000, by and among Nationwide Life Insurance Company, Nationwide Life and Annuity Insurance Company and Waddell & Reed, Inc. and its affiliated insurance companies. Filed as Exhibit 10.5 to the Company's Annual Report on Form 10-K, File No. 001-13913, for the year ended December 31, 2000 and incorporated herein by reference.
10.2	Fund Participation Agreement, dated as of December 1, 2000, by and among Nationwide Life Insurance Company and/or Nationwide Life and Annuity Insurance Company, Waddell & Reed Services Company and Waddell & Reed, Inc. Filed as Exhibit 10.6 to the Company's Annual Report on Form 10-K, File No. 001-13913, for the year ended December 31, 2000 and incorporated herein by reference.
10.3	Variable Products Distribution Agreement, dated as of December 12, 2003, by and among Minnesota Life Insurance Company, Securian Financial Services, Inc. and Waddell & Reed, Inc. and its affiliated insurance companies. Filed as Exhibit 10.4 to the Company's Annual Report on Form 10-K, File No. 333-43687, for the year ended December 31, 2004 and incorporated herein by reference.
10.4	Waddell & Reed Financial, Inc. 1998 Stock Incentive Plan, as amended and restated. Filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, File No. 333-43687, for the quarter ended September 30, 2005 and incorporated herein by reference.*
10.5	Waddell & Reed Financial, Inc. 1998 Non-Employee Director Stock Award Plan, as amended and restated. Filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q, File No. 333-43687, for the quarter ended September 30, 2005 and incorporated herein by reference.*
10.6	Waddell & Reed Financial, Inc. 1998 Executive Stock Award Plan, as amended and restated. Filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q, File No. 333-43687, for the quarter ended September 30, 2005 and incorporated herein by reference.*
10.7	Credit Agreement, dated as of October 7, 2005 by and among Waddell & Reed Financial, Inc., the Lenders, JPMorgan Chase Bank and Bank of America, N.A. Filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, File No. 333-43687, on October 11, 2005 and incorporated herein by reference.
10.8	Fixed Rate Promissory Note for Multiple Loans dated as of August 15, 2000, by and between Waddell & Reed Financial, Inc. and Chase Manhattan Bank. Filed as Exhibit 10.15 to the Company's Annual Report on Form 10-K, File No. 001-13913, for the year ended December 31, 2000 and incorporated herein by reference.
10.9	Master Note Agreement, dated as of July 7, 2000, by and between Waddell & Reed Financial, Inc. and UMB Bank, n.a. Filed as Exhibit 10.9 to the Company's Annual Report on Form 10-K, File No. 333-43687, for the year ended December 31, 2001 and incorporated herein by reference.
10.10	Waddell & Reed Financial, Inc. Supplemental Executive Retirement Plan, as amended and restated. Filed as Exhibit 10.12 to the Company's Annual Report on Form 10-K, File No. 333-43687, for the year ended December 31, 2006 and incorporated herein by reference.*

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Exhibit No.	Exhibit Description
10.11	Waddell & Reed Financial, Inc. 2003 Executive Incentive Plan, as amended and restated. Filed as Exhibit 10.13 to the Company's Annual Report on Form 10-K, File No. 333-43687, for the year ended December 31, 2006 and incorporated herein by reference.*
10.12	Form of Accounting Services Agreement by and between the Funds and Waddell & Reed Services Company. Filed as Exhibit 10.18 to the Company's Annual Report on Form 10-K, File No. 001-13913, for the year ended December 31, 2000 and incorporated herein by reference.
10.13	Form of Investment Management Agreement by and between each of the Advisors Funds and Waddell & Reed Investment Management Company. Filed as Exhibit 10.19 to the Company's Annual Report on Form 10-K, File No. 001-13913, for the year ended December 31, 2000 and incorporated herein by reference.
10.14	Investment Management Agreement by and between the Ivy Funds and Waddell & Reed Investment Management Company. Filed as Exhibit 10.20 to the Company's Annual Report on Form 10-K, File No. 001-13913, for the year ended December 31, 2000 and incorporated herein by reference.
10.15	Investment Management Agreement by and between the Target Funds and Waddell & Reed Investment Management Company. Filed as Exhibit 10.21 to the Company's Annual Report on Form 10-K, File No. 001-13913, for the year ended December 31, 2000 and incorporated herein by reference.
10.16	Investment Management Agreement by and between InvestEd and Waddell & Reed Investment Management Company. Filed as Exhibit 10.16 to the Company's Annual Report on Form 10-K, File No. 333-43687, for the year ended December 31, 2001 and incorporated herein by reference.
10.17	Form of Shareholder Servicing Agreement by and between each of the Advisors Funds or the Ivy Funds and Waddell & Reed Services Company. Filed as Exhibit 10.22 to the Company's Annual Report on Form 10-K, File No. 001-13913, for the year ended December 31, 2000 and incorporated herein by reference.
10.18	Form of Administrative and Shareholder Servicing Agreement by and between InvestEd and Waddell & Reed Services Company. Filed as Exhibit 10.18 to the Company's Annual Report on Form 10-K, File No. 333-43687, for the year ended December 31, 2001 and incorporated herein by reference.
10.19	Form of Underwriting Agreement by and between each of the Advisors Funds and Waddell & Reed, Inc. Filed as Exhibit 10.35 to the Company's Annual Report on Form 10-K, File No. 001-13913, for the year ended December 31, 1998 and incorporated herein by reference.
10.20	Form of Underwriting Agreement by and between the Ivy Funds and Waddell & Reed, Inc. Filed as Exhibit 10.36 to the Company's Annual Report on Form 10-K, File No. 001-13913, for the year ended December 31, 1998 and incorporated herein by reference.
10.21	Form of Underwriting Agreement by and between InvestEd and Waddell & Reed, Inc. Filed as Exhibit 10.21 to the Company's Annual Report on Form 10-K, File No. 333-43687, for the year ended December 31, 2001 and incorporated herein by reference.

WADDELL & REED FINANCIAL, INC.

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Exhibit No.	Exhibit Description
10.22	Form of Distribution and Service Plan for Class A Shares by and between each of the Advisors Funds and Waddell & Reed, Inc. Filed as Exhibit 10.25 to the Company's Annual Report on Form 10-K, File No. 001-13913, for the year ended December 31, 2000 and incorporated herein by reference.
10.23	Form of Distribution and Service Plan for Class A Shares by and between the Ivy Funds or InvestEd and Waddell & Reed, Inc. Filed as Exhibit 10.26 to the Company's Annual Report on Form 10-K, File No. 001-13913, for the year ended December 31, 2000 and incorporated herein by reference.
10.24	Form of Distribution and Service Plan for Class B Shares by and between each of the Advisors, the Ivy Funds, or InvestEd and Waddell & Reed, Inc. Filed as Exhibit 10.27 to the Company's Annual Report on Form 10-K, File No. 001-13913, for the year ended December 31, 2000 and incorporated herein by reference.
10.25	Form of Distribution and Service Plan for Class C Shares by and between each of the Advisors, the Ivy Funds, or InvestEd and Waddell & Reed, Inc. Filed as Exhibit 10.28 to the Company's Annual Report on Form 10-K, File No. 001-13913, for the year ended December 31, 2000 and incorporated herein by reference.
10.26	Distribution and Service Plan for Class Y Shares, adopted December 27, 1995 by and between the Ivy Funds and Waddell & Reed, Inc. Filed as Exhibit 10.29 to the Company's Annual Report on Form 10-K, File No. 001-13913, for the year ended December 31, 2000 and incorporated herein by reference.
10.27	Service Plan, adopted August 21, 1998 by and between the Target Funds and Waddell & Reed, Inc. Filed as Exhibit 10.30 to the Company's Annual Report on Form 10-K, File No. 001-13913, for the year ended December 31, 2000 and incorporated herein by reference.
10.28	Administrative Agreement, dated as of March 9, 2001, by and among W&R Insurance Agency, Inc., Waddell & Reed, Inc., BISYS Insurance Services, Inc. and Underwriters Equity Corp. Filed as Exhibit 10.28 to the Company's Annual Report on Form 10-K, File No. 333-43687, for the year ended December 31, 2001 and incorporated herein by reference.
10.29	Consulting Agreement, dated January 1, 2002, by and between Robert L. Hechler and Waddell & Reed, Inc. Filed as Exhibit 10.29 to the Company's Annual Report on Form 10-K, File No. 333-43687, for the year ended December 31, 2001 and incorporated herein by reference.
10.30	First Amendment to Consulting Agreement, dated December 25, 2005, by and between Robert L. Hechler and Waddell & Reed, Inc. Filed as Exhibit 10.12 to the Company's Annual Report on Form 10-K, File No. 333-43687, for the year ended December 31, 2006 and incorporated herein by reference.
10.31	Consulting Agreement, dated May 25, 2005, by and between Waddell & Reed Financial, Inc. and Keith A. Tucker. Filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, File No. 333-43687, on May 26, 2005 and incorporated herein by reference.

WADDELL & REED FINANCIAL, INC.

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Exhibit No.	Exhibit Description
10.32	Form of Change in Control Employment Agreement, dated December 14, 2001, by and between Henry J. Herrmann and Waddell & Reed Financial, Inc. Filed as Exhibit 10.30 to the Company's Annual Report on Form 10-K, File No. 333-43687, for the year ended December 31, 2001 and incorporated herein by reference.*
10.33	Summary of Compensation Arrangements with Executive Officers of Waddell & Reed Financial, Inc.*
10.34	Summary of Non-Employee Director Compensation.*
10.35	Form of Restricted Stock Award Agreement for awards pursuant to the Waddell & Reed Financial, Inc. 1998 Executive Stock Award Plan, as amended and restated. Filed as Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q, File No. 333-43687, for the quarter ended September 30, 2005 and incorporated herein by reference.*
10.36	Form of Restricted Stock Award Agreement for awards to Employees pursuant to the Waddell & Reed Financial, Inc. 1998 Stock Incentive Plan, as amended and restated. Filed as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q, File No. 333-43687, for the quarter ended September 30, 2005 and incorporated herein by reference.*
10.37	Form of Restricted Stock Award Agreement for awards to Non-Employee Directors pursuant to the Waddell & Reed Financial, Inc. 1998 Stock Incentive Plan, as amended and restated. Filed as Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q, File No. 333-43687, for the quarter ended September 30, 2005 and incorporated herein by reference.*
10.38	Form of Restricted Stock Award Agreement for awards pursuant to the Waddell & Reed Financial, Inc. 1998 Non-Employee Director Stock Award Plan, as amended and restated. Filed as Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q, File No. 333-43687, for the quarter ended September 30, 2005 and incorporated herein by reference.*
10.39	2007 Performance Goals established pursuant to the Waddell & Reed Financial, Inc. 2003 Executive Incentive Plan, as amended and restated. Filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, File No. 333-43687, on February 26, 2007 and incorporated herein by reference.*
10.40	Offer of Settlement. Filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, File No. 333-43687, on July 24, 2006 and incorporated herein by reference.
10.41	Assurance of Discontinuance. Filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, File No. 333-43687, on July 24, 2006 and incorporated herein by reference.
10.42	Stipulation for Consent Order. Filed as Exhibit 10.3 to the Company's Current Report on Form 8-K, File No. 333-43687, on July 24, 2006 and incorporated herein by reference.
11	Statement regarding computation of per share earnings.
21	Subsidiaries of Waddell & Reed Financial, Inc. Filed as Exhibit 21 to the Company's Annual Report on Form 10-K, File No. 333-43687, for the year ended December 31, 2006 and incorporated herein by reference.
23	Consent of KPMG LLP.
31.1	Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer.

WADDELL & REED FINANCIAL, INC.

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Exhibit No.	Exhibit Description
31.2	Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer.
32.1	Section 1350 Certification of the Chief Executive Officer.
32.2	Section 1350 Certification of the Chief Financial Officer.

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

Corporate INFORMATION

ANNUAL MEETING OF STOCKHOLDERS
April 11, 2007 ● 10:00 a.m.
Corporate Headquarters

CORPORATE HEADQUARTERS
Waddell & Reed Financial, Inc.
6300 Lamar Avenue
Overland Park, KS 66202

STOCK EXCHANGE LISTING
Class A Common Stock
New York Stock Exchange Symbol: WDR

TRANSFER AGENT & REGISTRAR
Computershare Trust Company, N.A.
P.O. Box 43069
Providence, RI 02940-3070
Toll Free Number: 877.498.8861
Hearing Impaired: 800.952.9245
www.computershare.com

INDEPENDENT AUDITORS
KPMG LLP
1000 Walnut, Suite 1000
Kansas City, MO 64106

STOCKHOLDER INQUIRIES
For general information regarding your Waddell & Reed Financial, Inc. stock, call 800.532.2757 or visit our website a www.waddell.com. For stock transfers, call 877.498.8861

MUTUAL FUND INFORMATION
For information regarding our mutual funds, please call 888.WADDELL or visit www.waddell.com or www.ivyfunds.com.

DIVIDEND REINVESTMENT
Waddell & Reed Financial, Inc. maintains a dividend reinvestment plan for all holders of its common stock. Under the plan, stockholders may reinvest all or part of their dividends in additional shares of common stock. Participation is entirely voluntary. More information on the plan can be obtained from our Transfer Agent.

STOCKHOLDER AND ANALYST RESOURCES
We believe that in today's digital world, the Internet allows us to disseminate our corporate information much more quickly and efficiently. In addition to the standard information typically found on corporate websites, such as general, corporate and stock information, access to archived press releases and SEC filings, and answers to frequently asked questions, we supply our stockholders and analysts with timely supplemental data including quarterly corporate presentations, access to live and archived webcasts, data tables and more. If you elect to request information alerts, we will send you an e-mail when new information is posted to our corporate website.

NYSE SECTION 303A ANNUAL WRITTEN AFFIRMATION
The Company filed its Section 303A Annual Written Affirmation, including the Section 303A. 12(a) CEO Certification, with the NYSE on April 28, 2006.

SECTION 302 CERTIFICATIONS
The Company filed with the SEC the certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibits 31.1 and 31.2 to its Annual Report on Form 10-K for the year ended December 31, 2006.

Questions about corporate information can be directed to the attention of:
Nicole McIntosh
Director of Investor Relations
913.236.1880
investorrelations@waddell.com

WADDELL & REED
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WADDELL & REED 70 YEARS INVESTING IN PEOPLE