

WADDELL & REED FINANCIAL INC  
Form DEF 14A  
March 01, 2006  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

## SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant ☒ x

Filed by a Party other than the Registrant ☐ o

Check the appropriate box:

- ☐ o Preliminary Proxy Statement  
☐ o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**  
☒ x Definitive Proxy Statement  
☐ o Definitive Additional Materials  
☐ o Soliciting Material Pursuant to §240.14a-12

WADDELL & REED FINANCIAL, INC.  
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- ☒ x No fee required.  
☐ o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
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| (3) | Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): |
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**March 8, 2006**

*To the Stockholders of*  
**Waddell & Reed Financial, Inc.:**

Waddell & Reed Financial, Inc.'s 2006 Annual Meeting of Stockholders will be held in the William T. Morgan Auditorium at the executive offices of the Company, 6300 Lamar Avenue, Overland Park, Kansas 66202 at 10:00 a.m., local time, on Wednesday, April 12, 2006.

At the annual meeting, we will ask you to (1) approve the election of the nominees shown in the accompanying Proxy Statement as directors, and (2) transact such other business as may properly come before the annual meeting or any adjournments thereof.

The accompanying formal notice and Proxy Statement discuss matters which will be presented for a stockholder vote. We have also enclosed our 2005 Annual Report, which is not a part of the proxy soliciting materials. If you have any questions or comments about the matters discussed in the Proxy Statement or about the operations of the Company, we will be pleased to hear from you. It is important that your shares be voted at the annual meeting. If you are unable to attend the annual meeting in person and wish to have your shares voted, you may vote by telephone, Internet or by filling in, signing and dating the enclosed proxy and returning it in the accompanying envelope as promptly as possible.

We hope that you will take this opportunity to meet with us to discuss the results and operations of the Company for the 2005 fiscal year.

Sincerely,

Alan W. Kosloff  
*Chairman of the Board*

Henry J. Herrmann  
*Chief Executive Officer*

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**WADDELL AND REED FINANCIAL, INC.**

6300 Lamar Avenue  
Overland Park, Kansas 66202  
(913) 236-2000

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held on April 12, 2006**

*To the Stockholders of*  
Waddell & Reed Financial, Inc.:

I am pleased to give you notice that the 2006 Annual Meeting of Stockholders of Waddell & Reed Financial, Inc. (the Company) will be held in the William T. Morgan Auditorium at the Company's executive offices located at 6300 Lamar Avenue, Overland Park, Kansas 66202 on Wednesday, April 12, 2006, at 10:00 a.m., local time.

At the annual meeting, you will be asked to:

1. Elect the nominees shown in the accompanying Proxy Statement as directors to hold office until the 2009 Annual Meeting of Stockholders or until their respective successors are duly elected and qualified.
2. Transact such other business as may properly come before the annual meeting or any adjournments thereof.

These matters are more fully discussed in the accompanying Proxy Statement.

The Board of Directors has fixed Wednesday, February 15, 2006, at the close of business, as the record date for the determination of stockholders entitled to notice of, and to vote at, the annual meeting.

All stockholders are cordially invited to attend the annual meeting in person. However, if you are unable to attend in person and wish to have your shares voted, **YOU MAY VOTE BY TELEPHONE, INTERNET OR BY FILLING IN, SIGNING AND DATING THE ENCLOSED PROXY AND RETURNING IT IN THE ACCOMPANYING ENVELOPE AS PROMPTLY AS POSSIBLE.** Regardless of how you deliver your proxy, you may revoke your proxy at any time before it is voted by submitting to the Secretary of the Company a written revocation or a proxy bearing a later date, or by attending the annual meeting and giving oral notice of your intention to vote in person.

The annual meeting for which this notice is given may be adjourned from time to time without further notice other than announcement at the annual meeting or any adjournment thereof. Any business for which notice is hereby given may be terminated at any such adjourned meeting.

BY ORDER OF THE BOARD OF DIRECTORS

Wendy J. Hills  
*Vice President, Secretary & Associate General Counsel*

The accompanying Proxy Statement is dated March 8, 2006 and is first being mailed to stockholders on or about that date.

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**WADDELL & REED FINANCIAL, INC.**

<b>PROXY STATEMENT</b>
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This Proxy Statement is furnished in connection with the solicitation of proxies by Waddell & Reed Financial, Inc. (the Company), on behalf of the Board of Directors (the Board), for the 2006 Annual Meeting of Stockholders. This Proxy Statement and the related proxy card are being distributed on or about March 8, 2006.

**Summary Term Sheet**

The following summary highlights select information from this Proxy Statement and may not contain all of the information that is important to you. To better understand the nominees being solicited for director, you should carefully read this entire document and the other documents to which we refer to herein.

***When And Where Is The Annual Meeting?***

The annual meeting will take place in the William T. Morgan Auditorium at our executive offices located at 6300 Lamar Avenue, Overland Park, Kansas 66202 at 10:00 a.m., local time, on Wednesday, April 12, 2006. See Information Concerning the Annual Meeting Date, Time and Place.

***What Matters Will Be Voted Upon At The Annual Meeting?***

At the annual meeting you will be asked to:

- Consider and vote upon a proposal to elect Dennis E. Logue and Ronald C. Reimer as directors to hold office for a term of three years, expiring at the close of the Annual Meeting of Stockholders in 2009.
- Transact such other business as may properly come before the annual meeting or any adjournments thereof.

***Who Is Entitled To Vote?***

Only stockholders of record at the close of business on Wednesday, February 15, 2006, which is the record date, are entitled to notice of, and to vote at, the annual meeting.

***What Stockholder Approval Is Necessary To Approve The Election Of Directors?***

The election of directors requires the affirmative vote of a plurality of the shares of our Class A common stock cast at the annual meeting.

***If My Broker Holds My Shares In Street Name, Will My Broker Vote My Shares For Me?***

Brokers who do not have instructions from their street name customers may not use their discretion in voting their customers' shares on non-routine matters. Because it is considered a routine matter, brokers will have discretionary authority to vote shares of our Class A common stock with respect to the election of directors (if beneficial owners fail to give voting instructions). You should follow the directions provided by your broker regarding how to instruct your broker to vote your shares. See Information Concerning the Annual Meeting Voting of Proxies.

***May I Change My Vote After I Have Submitted My Proxy?***

Yes. To change your vote you can do any of the following:

- Give notice of your changed vote to us in writing mailed to the attention of Wendy J. Hills, Secretary, at our executive offices.
- Execute and deliver to us a subsequent proxy.
- Attend the annual meeting and give oral notice of your intention to vote in person.

You should be aware that simply attending the annual meeting would not in and of itself constitute a revocation of your proxy. See Information Concerning the Annual Meeting Revocability of Proxies.

***What Do I Need To Do Now?***

First, read this Proxy Statement carefully. Then, you should, as soon as possible, submit your proxy by either executing and returning the paper proxy card or by voting electronically via the Internet or by telephone. Your shares represented by proxy will be voted in accordance with the directions you specify. If you submit an executed proxy to the Company, but fail to specify voting directions, your shares will be voted **FOR** the approval of the director nominees. See Information Concerning the Annual Meeting Voting of Proxies.

***Who Can Help Answer My Questions?***

If you have questions concerning the proposal or the annual meeting, if you would like additional copies of this Proxy Statement, or if you need special assistance at the annual meeting, please call our Investor Relations office toll free at (800) 532-2757. In addition, information regarding the annual meeting is available via the Internet at our website [www.waddell.com](http://www.waddell.com).

**YOU SHOULD CAREFULLY READ THIS PROXY STATEMENT (INCLUDING ITS ATTACHMENT) IN ITS ENTIRETY.** The summary information provided above in question and answer format is for your convenience only and is merely a brief description of material information contained in this Proxy Statement.

## INFORMATION CONCERNING THE ANNUAL MEETING

### *Date, Time and Place*

This Proxy Statement is being delivered to the Company's stockholders on or about March 8, 2006, in connection with the solicitation of proxies to be voted at the 2006 Annual Meeting of Stockholders to be held in the William T. Morgan Auditorium at the Company's executive offices located at 6300 Lamar Avenue, Overland Park, Kansas 66202 at 10:00 a.m., local time, on Wednesday, April 12, 2006.

### *Matters to be Voted Upon at the Annual Meeting*

At the annual meeting you will be asked to:

- Consider and vote upon a proposal to elect the nominees Dennis E. Logue and Ronald C. Reimer as directors to hold office for a term of three years, expiring at the close of the Annual Meeting of Stockholders in 2009.
- Transact such other business as may properly come before the annual meeting or any adjournments thereof.

Other than the election of directors, we are not aware of any other matters that may come before the annual meeting.

### *Record Date; Shares Entitled to Vote*

The Board has set the close of business on Wednesday, February 15, 2006, as the record date for the determination of stockholders entitled to notice of, and to vote at, the annual meeting. Each share of our Class A common stock will be entitled to one vote on all matters submitted for a vote at the annual meeting.

As of the record date, there were approximately 83,853,371 shares of our Class A common stock issued and outstanding and entitled to be voted at the annual meeting.

### *Quorum*

The presence, either in person or by proxy, of the holders of at least a majority of the voting power of our issued and outstanding shares of Class A common stock is required to constitute a quorum for the transaction of business at the annual meeting. Abstentions and broker non-votes, which are described in more detail below, are counted as shares present at the annual meeting for purposes of determining whether a quorum exists.

### *Vote Required for Approval of the Election of Directors*

The election of directors requires the affirmative vote of a plurality of the shares of our Class A common stock cast at the annual meeting. For purposes of this vote, a failure to vote, a vote to abstain or withholding your vote (or a direction to your broker to do so) are not counted as votes cast, and therefore, will have no effect on the outcome of the election of directors.

As of the record date, directors and executive officers of the Company beneficially owned (excluding currently exercisable options) an aggregate of approximately 1,754,954 shares of Class A common stock representing 2.1% of our Class A common stock issued and outstanding, and therefore, 2.1% of the voting power entitled to vote at the annual meeting. The Company believes that the directors and executive officers of the Company currently intend to vote their shares in favor of the election of the nominees Dennis E. Logue and Ronald C. Reimer as directors.

### *Voting of Proxies*

Shares represented by a properly executed proxy (in paper form, by Internet or by telephone) that is received on or before the time of the annual meeting, and not subsequently revoked, will be voted at the annual meeting or any adjournment or postponement thereof in the manner directed on the proxy. Henry J. Herrmann and Alan W. Kosloff are named as proxies in the proxy form and have been designated by the Board as the directors' proxies to represent you and vote your shares at the annual meeting. All shares represented by a properly executed proxy on which no choice is specified will be voted (1) **FOR** the election of the nominees for director named in this Proxy Statement, and (2) in accordance with the proxy holders' best judgment as to any other business that may properly come before the annual meeting.

This Proxy Statement is considered to be voting instructions for the trustees of the Waddell & Reed Financial, Inc. 401(k) and Thrift Plan, the Torchmark Corporation Savings and Investment Plan, the Liberty National Life Insurance Company 401(k) Plan, and the Profit Sharing and Retirement Plan of Liberty National Life Insurance Company for our Class A common stock allocated to individual accounts under those plans. If account information is the same, participants in the plan (who are also stockholders of record) will receive a single proxy representing all of their shares. If a plan participant does not submit a proxy to us, the trustees of the plan in which shares are allocated to his or her individual account will vote such shares in the same proportion as the total shares in such plan for which directions have been received.

Brokers who hold shares in "street name" for customers are precluded from exercising voting discretion with respect to the approval of non-routine matters. Accordingly, absent specific voting instructions from the beneficial owners of such shares, brokers are not empowered to vote shares of our Class A common stock with respect to the approval of non-routine matters (so called "broker non-votes"). However, the election of directors is considered a non-routine matter, and therefore, brokers have discretionary authority to vote shares of our Class A common stock if beneficial owners fail to give voting instructions.

Other than the election of directors, the Company's management is not aware of any other matters that may come before the annual meeting. If any other matters are properly presented at the annual meeting for action, Messrs. Herrmann and Kosloff will vote on such matters in accordance with their best judgment.

### *Revocability of Proxies*

Any stockholder of record who has given a proxy may revoke it at any time prior to the annual meeting by delivering to the Secretary of the Company a written statement revoking it or by delivering a duly executed proxy bearing a later date. In addition, a proxy may be revoked by a stockholder by attending the annual meeting and giving oral notice of his or her intention to vote in person. Attendance at the annual meeting by a stockholder who has executed and delivered a proxy to the Company will not in and of itself constitute a revocation of that proxy.

### *Solicitation of Proxies*

Proxies will be solicited initially by mail. Further solicitation may be made in person or by telephone, electronic mail or facsimile. The Company will bear the expense of preparing, printing and mailing this Proxy Statement and accompanying materials to our stockholders. Upon request, the Company will reimburse brokers, dealers, banks or similar entities acting as nominees for reasonable expenses incurred in forwarding copies of the proxy materials relating to the annual meeting to the beneficial owners of our Class A common stock.

**YOUR VOTE IS IMPORTANT. YOU MAY VOTE BY TELEPHONE, INTERNET OR BY FILLING IN, SIGNING AND DATING THE ENCLOSED PROXY AND RETURNING IT IN THE ACCOMPANYING ENVELOPE AS PROMPTLY AS POSSIBLE.**



**PROPOSAL NO. 1 ELECTION OF DIRECTORS**

Our Bylaws provide that the number of directors will not be less than seven nor more than 15 with the exact number to be fixed by the Board. Our Certificate of Incorporation divides our Board into three classes, with the term of each class expiring in consecutive years. Currently, there are seven directors with two directors in Class I and Class II and three directors in Class III.

Our Board nominates Dennis E. Logue and Ronald C. Reimer as Class II directors, to hold office for a term of three years, expiring at the close of the 2009 Annual Meeting of Stockholders or until their successors are elected and qualified or until their earlier resignation or removal. The Board believes these incumbent directors standing for re-election are well qualified and experienced to direct and manage the Company's operations and business affairs and will represent the interests of the stockholders as a whole. Biographical information on each of these nominees is set forth below in Directors and Executive Officers of the Company.

If any nominee becomes unavailable for election, which is not anticipated, the directors' proxies will vote for the election of such other person as the Board may nominate, unless the Board resolves to reduce the number of directors to serve on the Board and thereby reduce the number of directors to be elected at the annual meeting.

***THE BOARD RECOMMENDS THAT STOCKHOLDERS VOTE FOR EACH OF THE NOMINEES LISTED HEREIN.***

**OTHER INFORMATION YOU NEED TO MAKE AN INFORMED DECISION****DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY***Number of Directors and Term of Directors and Executive Officers*

The Company's Bylaws provide that the number of directors will not be less than seven nor more than 15 with the exact number to be fixed by the Board. The Company's Certificate of Incorporation divides the Board into three classes of as equal size as possible, with the terms of each class expiring in consecutive years so that only one class is elected in any given year. Currently, there are seven directors with two directors in Class I and Class II and three directors in Class III.

The stockholders of the Company elect successors for directors whose terms have expired at the Company's annual meeting. The Board elects members to fill new membership positions and vacancies in unexpired terms on the Board. Pursuant to the Company's Bylaws, non-employee directors must retire from the Board at the close of the Annual Meeting of Stockholders following their 73rd birthday; executive officers of the Company are elected by the Board and hold office until their successors are elected and qualified or until the earlier of their death, retirement, resignation or removal.

*Directors and Executive Officers*

The names of the Company's directors and executive officers as of February 23, 2006 and their respective ages and positions are as follows:

Name	Age	Position
Michael L. Avery	52	Senior Vice President and Chief Investment Officer
Brent K. Bloss	37	Vice President and Treasurer
Thomas W. Butch	49	Senior Vice President and Chief Marketing Officer
Daniel P. Connealy	59	Senior Vice President and Chief Financial Officer
Henry J. Herrmann	63	Chief Executive Officer and Class III Director
Alan W. Kosloff	65	Chairman of the Board and Class I Director
Dennis E. Logue	61	Class II Director
James M. Raines	66	Class III Director
Ronald C. Reimer	71	Class II Director
William L. Rogers	59	Class III Director
Mark A. Schieber	48	Vice President, Controller and Principal Accounting Officer
Daniel C. Schulte	40	Senior Vice President and General Counsel
Michael D. Strohm	54	Senior Vice President and Chief Operations Officer
John E. Sundeen, Jr.	45	Senior Vice President and Chief Administrative Officer Investments
Jerry W. Walton	59	Class I Director

Effective May 25, 2005, Keith A. Tucker, who previously served as Chairman of the Board, Chief Executive Officer and Class I Director, resigned from all such positions. At that time, the Board elected Henry J. Herrmann, who then served as President and Chief Investment Officer, as Chief Executive Officer. Additionally, the Board elected Alan W. Kosloff, an independent, non-executive Class I Director, to the position of Chairman of the Board.

Set forth below is a description of the backgrounds of the executive officers, directors and nominees for director.

**Michael L. Avery** has been Senior Vice President and Chief Investment Officer of the Company since June 2005. He has served as Executive Vice President and Chief Investment Officer of Waddell & Reed Investment Management Company ( WRIMCO ) and Ivy Investment Management Company ( IICO ), both of which are investment advisor subsidiaries of the Company, since June 2005. Prior thereto, he

served as Senior Vice President of WRIMCO from January 1997 to June 2005 and of IICO from April 2003 to June 2005. Mr. Avery joined the Company in June 1981 and has served as a mutual fund portfolio manager since 1994.

**Brent K. Bloss** has been Vice President of the Company since April 2004 and Treasurer since January 2006. Previously, he served as Assistant Treasurer of the Company from January 2002 to January 2006 and as Assistant Vice President from January 2002 to April 2004. From September 1995 to December 2001, he served in various roles in the audit practice of the international accounting firm of KPMG LLP. Mr. Bloss joined the Company in January 2002.

**Thomas W. Butch** has been Senior Vice President and Chief Marketing Officer of the Company since joining the Company in November 1999. He has served as President of Waddell & Reed, Inc. ( WRI ), a broker-dealer subsidiary of the Company, since March 2005 and as Chief Marketing Officer thereof since March 2002. Previously, he served as Executive Vice President of WRI from January 2000 to March 2005. He has served as Senior Vice President and Chief Marketing Officer of IICO since December 2002 and as Chairman, Chief Executive Officer and President of Ivy Funds Distributor, Inc., a broker-dealer subsidiary of the Company, since March 2003. Prior to joining the Company, he was associated with Stein Roe & Farnham, Inc., Chicago, Illinois, an investment firm where he served in various positions from 1994-1999, including President of Mutual Funds, Senior Vice President of Marketing and Director of Public Relations.

**Daniel P. Connealy** has been Senior Vice President and Chief Financial Officer of the Company since joining the Company in June 2004. Mr. Connealy has served as a director of Gold Banc Corp., Inc., Leawood, Kansas, a bank holding company, and the Frank Russell Investment Company mutual funds, Tacoma, Washington, since April 2003. Previously, he served as Vice President and Chief Financial Officer of Stilwell Financial, Inc., Kansas City, Missouri, an asset management company (now known as Janus Capital Group) from June 2001 to March 2003. From July 1979 to May 2001, he served as a partner in the international accounting firm of PricewaterhouseCoopers LLP.

**Henry J. Herrmann** has been Chief Executive Officer of the Company since May 2005 and a Director since March 1998. Previously, he served as President of the Company from March 1998 to May 2005 and as Chief Investment Officer from March 1987 to May 2005. He is also a director and President of the Waddell & Reed Advisors Group of Mutual Funds, Ivy Funds, Inc., W&R Target Funds, Inc. and Waddell & Reed InvestEd Portfolios, Inc. and a Trustee and President of the Ivy Funds portfolios, all of which are mutual funds managed by the Company. He joined the Company in March 1971. Mr. Herrmann's term on the Board expires in 2007.

**Alan W. Kosloff** has been a Director of the Company since January 2003 and Chairman of the Board since May 2005. He has served as Chairman of Kosloff & Partners, LLC, Kansas City, Missouri, a consulting and investment firm since April 1996. Previously, he served as Chairman of Jones & Mitchell, Olathe, Kansas, an imprinted and licensed sportswear company from October 1997 to March 2005 and as Chairman, Chief Executive Officer and President of American Marketing Industries, Inc., Kansas City, Missouri, an apparel manufacturing, distribution and marketing firm from 1976 to 1995. Mr. Kosloff's term on the Board expires in 2008.

**Dennis E. Logue** has been a Director of the Company since January 2002. He has served as Chairman of the Board of Ledyard National Bank, Hanover, New Hampshire, since August 2005. Additionally, Mr. Logue has served as an Emeritus Professor of Management at the Amos Tuck School, Dartmouth College since August 2005. He served as Dean of the Michael B. Price College of Business at the University of Oklahoma from July 2001 to September 2005. Prior thereto, Mr. Logue held numerous business-oriented professorships, most recently at the Amos Tuck School, Dartmouth College from July 1974 to June 2001. Mr. Logue is also a director of Abraxas Petroleum Corporation, San Antonio, Texas, a natural gas and crude oil exploration, development and production company and of Duckwall-Alco Stores, Inc., Abilene, Kansas, a general merchandise retailer. *Mr. Logue is a nominee for director.*



**James M. Raines** has been a Director of the Company since July 1998. He has served as a director of Clear Channel Outdoor Holdings, Inc., a San Antonio, Texas outdoor advertising company since November 2005 and as President of James M. Raines and Company, San Antonio, Texas, an investment-banking firm since September 1988. Mr. Raines term on the Board expires in 2007.

**Ronald C. Reimer** has been a Director of the Company since March 2001. He is currently on the Board of Advisors, and is a member of the Finance Committee, of Truman Medical Center Hospital, Kansas City, Missouri ( TMC ). He also serves on the Board of Directors, and as the Secretary and Treasurer, of the TMC Charitable Foundation. Mr. Reimer is associated with the TMC Professional and General Liability Self-Insurance Trust as Chairman of the Management Committee. He also serves as a director for Prairie Star Bancshares, Inc., a privately-held bank in Olathe, Kansas. Previously, Mr. Reimer co-founded Reimer and Koger Associates, an investment counseling firm in Merriam, Kansas in 1973 and served as its President until his retirement in 1988. *Mr. Reimer is a nominee for director.*

**William L. Rogers** has been a Director of the Company since April 1998. He has served as Chairman of The Halifax Group, Dallas, Texas, an investment group, since 1999. In addition, he has been a Principal of Colony Capital, Inc., Los Angeles, California, an investment group since 1992. Mr. Rogers term on the Board expires in 2007.

**Mark A. Schieber** has been Vice President and Controller of the Company since April 2002. He has served as Vice President and Controller of Waddell & Reed Financial Services, Inc., a holding company subsidiary of the Company, since December 2001 and as Vice President, Controller, Principal Accounting Officer and Principal Financial Officer of WRI since June 2002. Previously, he served as Assistant Vice President of WRI from January 1998 to June 2002. Mr. Schieber joined the Company in May 1981.

**Daniel C. Schulte** has been General Counsel of the Company since January 2000 and Senior Vice President since April 2004. Prior thereto, he served as Vice President of the Company from January 2000 to April 2004 and as Secretary from January 2000 to April 2003. From July 1998 to January 2000, he served as Assistant Secretary of the Company. Prior to joining the Company in June 1998, Mr. Schulte was associated with the law firm of Klenda, Mitchell, Austerman and Zuercher LLC, in Wichita, Kansas. From 1992 to 1994, Mr. Schulte practiced in the corporate tax group of the international accounting firm of Ernst & Young, LLP in Kansas City, Missouri.

**Michael D. Strohm** has been Senior Vice President of the Company since January 1999 and Chief Operations Officer since March 2001. In addition, he has served as President of Waddell & Reed Services Company, a transfer agent subsidiary of the Company, since June 1999, as Chief Executive Officer of WRI since December 2001 and as Chief Operating Officer since March 2005. Prior thereto, he served as President of WRI from December 2001 to March 2005 and as Senior Vice President from January 1994 to December 2001. Mr. Strohm joined the Company in June 1972.

**John E. Sundeen, Jr.** has been Senior Vice President of the Company since July 1999 and Chief Administrative Officer Investments since January 2006. Previously, he served as Treasurer of the Company from July 1999 to January 2006 and as Chief Financial Officer from July 1999 to June 2004. He has served as Executive Vice President and Chief Administrative Officer of WRIMCO and of IICO since June 2004. Previously, he served as Senior Vice President of WRIMCO from January 1996 to June 2004 and as Head of Fixed Income within the Investment Management Division thereof from 1994 to June 1999. Mr. Sundeen joined the Company in June 1983.

**Jerry W. Walton** has been a Director of the Company since April 2000. He has been Executive Vice President of Finance and Administration and Chief Financial Officer of J.B. Hunt Transport Services, Inc., Lowell, Arkansas, a transportation logistics provider, since 1991. Prior thereto, Mr. Walton served as a tax partner with KPMG LLP, with whom he had been employed since 1968. Mr. Walton s term on the board expires in 2008.

There are no family relationships among any of the Company's executive officers, directors or nominees for director.

## CORPORATE GOVERNANCE

We believe that good corporate governance helps to ensure that the Company is managed for the long-term benefit of our stockholders, and we continually review our corporate governance policies and practices, recently adopted and proposed corporate governance rules and regulations of the Securities and Exchange Commission (the SEC), and revised corporate governance standards of the New York Stock Exchange (the NYSE), the stock exchange on which our Class A common stock is traded.

You can access and print the charters of our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee (the Corporate Governance Committee), as well as our Corporate Governance Guidelines, Corporate Code of Business Conduct and Ethics, Whistleblower Policy and other Company policies and procedures required by applicable law or regulation on the Corporate Governance page of the Corporate section of our website at [www.waddell.com](http://www.waddell.com). Additionally, you can request copies of any of these documents by writing to our Secretary at the following address:

**Waddell & Reed Financial, Inc.**  
**6300 Lamar Avenue**  
**Overland Park, KS 66202**  
**Attn: Corporate Secretary**

### *Director Independence*

The Board is composed of a majority of directors who satisfy the criteria for independence under Sections 303A.02(a) and (b) of the NYSE corporate governance standards. In determining independence, each year the Board affirmatively determines, among other items, whether the directors have no material relationship with the Company or any of its subsidiaries pursuant to Section 303A.02(a) of the NYSE corporate governance standards. When assessing the materiality of a director's relationship with the Company, if any, the Board considers all relevant facts and circumstances, not merely from the director's standpoint, but from that of the persons or organizations with which the director has an affiliation, and the frequency or regularity of the services, whether the services are being carried out at arm's length in the ordinary course of business, and whether the services are being provided substantially on the same terms to the Company as those prevailing at the time from unrelated parties for comparable transactions. Material relationships can include commercial, banking, industrial, consulting, legal, accounting, charitable or familial relationships. The Board also considers any other relationship that could interfere with the exercise of independence or judgment in carrying out the duties of a director.

Applying these independence standards, the Board has determined that Alan W. Kosloff, Dennis E. Logue, Ronald C. Reimer, William L. Rogers and Jerry W. Walton are all independent directors. After due consideration, the Board has determined that none of these non-management directors have a material relationship with the Company or any of its subsidiaries (either directly or indirectly as a partner, stockholder or officer of an organization that has a relationship with the Company or any of its subsidiaries) and they all meet the criteria for independence under the NYSE corporate governance standards. In particular, the Board considered the business transaction between the Company and William L. Rogers described below under Certain Relationships and Related Transactions.

### *Board Composition and Director Qualifications*

*The Corporate Governance Committee periodically assesses the appropriate size and composition of the Board, and whether any vacancies on the Board are expected due to retirement or otherwise. In the event that vacancies are anticipated or otherwise arise, the Corporate Governance Committee will review and assess potential director candidates. The Corporate Governance Committee utilizes various methods*

*for identifying and evaluating candidates for director. Candidates may come to the attention of the Corporate Governance Committee through recommendations of Board members, management, stockholders or professional search firms. Generally, director candidates should, at a minimum:*

- Possess relevant business and financial expertise and experience, including a basic understanding of financial statements;
- Have exemplary character and integrity and be willing to work constructively with others;
- Have sufficient time to devote to Board meetings and consultation on Board matters; and
- Be free of conflicts of interest that violate applicable law or interfere with director performance.

*In addition, the Corporate Governance Committee seeks director candidates who possess qualities and skills including, but not limited to, the following:*

- The capacity and desire to represent the interests of the Company's stockholders as a whole;
- Occupational experience and perspective that, together with other directors, will enhance the quality of the Board;
- Leadership experience and sound business judgment;
- Accomplishments in their respective field, with superior credentials and recognition;
- The ability to contribute to the mix of skills, core competencies and qualifications of the Board through expertise in one or more of the following areas: accounting and finance, mergers and acquisitions, investment management, sales and marketing, business and management, law, academia, strategic planning, investor relations, executive leadership development and executive compensation;
- Service as a senior officer of, or a trusted advisor to senior management of, a publicly-held company; and
- Knowledge of the critical aspects of the Company's business and operations.

The director qualifications set forth above are general in nature and may be modified by the Board or the Corporate Governance Committee from time to time as the Board or the Corporate Governance Committee deems appropriate.

#### ***Director Recommendations By Stockholders***

*In addition to recommendations from Board members, management or professional search firms, the Corporate Governance Committee will consider director candidates properly submitted by stockholders who individually or as a group have owned at least two percent of the outstanding shares of the Company's Class A common stock for at least one year from the date the recommendation is submitted. Stockholders must submit director candidate recommendations in writing by certified mail to the Company's Secretary not less than 120 days prior to the first anniversary of the date of the proxy statement relating to the Company's previous annual meeting. Accordingly, for the 2007 Annual Meeting of Stockholders, director candidates must be submitted to the Company's Secretary by November 8, 2006. Director candidates submitted by stockholders must contain at least the following information:*

- The name and address of the recommending stockholder;
- The number of shares of the Company's Class A common stock beneficially owned by the recommending stockholder and the dates such shares were purchased;



- The name, age, business address and residence of the candidate;

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- The principal occupation or employment of the candidate for the past five years;
- A description of the candidate's qualifications to serve as a director, including financial expertise, and why the candidate does or does not qualify as "independent" under the NYSE corporate governance standards;
- The number of shares of the Company's Class A common stock beneficially owned by the candidate, if any; and
- A description of any arrangements or understandings between the recommending stockholder and the candidate, if any, or any other person pursuant to which the recommending stockholder is making the recommendation.

*In addition, the recommending stockholder and the candidate must submit, with the recommendation, a signed statement agreeing and acknowledging that:*

- The candidate consents to being a director candidate and, if nominated and elected, he/she will serve as a director representing all of the Company's stockholders in accordance with applicable laws and the Company's Certificate of Incorporation and Bylaws;
- The candidate, if elected, will comply with the Company's Corporate Governance Guidelines and any other applicable rule, regulation, policy or standard of conduct applicable to the Board or its individual members;
- The recommending stockholder will maintain beneficial ownership of at least two percent of the Company's issued and outstanding Class A common stock through the date of the annual meeting for which the candidate is being recommended for nomination and that, upon such candidate's nomination and election to the Board, the recommending stockholder intends to maintain such ownership throughout the candidate's term as director; and
- The recommending stockholder and the candidate will promptly provide any additional information requested by the Corporate Governance Committee and/or the Board to assist in the consideration of the candidate, including, without limitation, a completed and signed Questionnaire for Directors and Officers on the Company's standard form and an interview with the Corporate Governance Committee or its representative.

*For a complete list of the information that must be included in director recommendations submitted by stockholders, please see the "Policy Regarding Director Recommendations By Stockholders" on the "Corporate Governance" page of the "Corporate" section of our website at [www.waddell.com](http://www.waddell.com). The Corporate Governance Committee will consider all director candidates submitted through its established processes, and will evaluate each of them, including incumbents, based on the same criteria. However, the Corporate Governance Committee may prefer incumbent directors and director candidates who they know personally or that have relevant industry experience and in-depth knowledge of the Company's business and operations.*

*The policies and procedures set forth above are intended to provide flexible guidelines for the effective functioning of the Company's director nomination process. The Board intends to review these policies and procedures periodically and anticipates that modifications may be necessary from time to time as the Company's needs and circumstances change.*

#### ***Communications with the Board***

*Stockholders may communicate with the Board, Board committees, non-management directors as a group and individual directors by submitting their communications in writing to the attention of the*



*Company's Secretary. All communications must identify the recipient, author, state that the author is a stockholder of the Company, and be forwarded by certified mail to the following address:*

**Waddell & Reed Financial, Inc.  
6300 Lamar Avenue  
Overland Park, KS 66202  
Attn: Corporate Secretary**

The directors of the Company, including the non-management directors, have directed the Secretary not to forward to the intended recipient any communications that are reasonably determined in good faith by the Secretary to relate to improper or irrelevant topics.

#### ***Board Meetings***

*The Board held eight meetings during the 2005 fiscal year. All directors attended at least 75% of the Board meetings. The Board also acted by unanimous written consent on two occasions in 2005. The Company has adopted a Director Attendance Policy to stress the importance of attendance, director preparedness and active and effective participation at Board and committee meetings. All of the directors attended the 2005 Annual Meeting of Stockholders and the 2005 Annual Meeting of Directors.*

Additionally, the non-management directors of the Board hold regularly scheduled executive sessions. In 2005, the non-management directors held three executive sessions with director Alan W. Kosloff serving as chairman of these sessions.

#### ***Non-Executive Chairman of the Board***

Effective May 25, 2005, the Board elected Mr. Alan W. Kosloff, a non-executive independent director, to serve as Chairman of the Board and determined that Mr. Kosloff will also preside over regularly scheduled executive sessions of both the non-management directors and the independent directors.

#### ***Board Committees***

Standing committees of the Board include the Audit Committee, the Compensation Committee, the Corporate Governance Committee and the Executive Committee. Committee members are elected annually by the Board and serve until their successors are elected and qualified or until their earlier resignation or removal.

Upon the recommendation of the Corporate Governance Committee, on January 19, 2006, the Board appointed the following members to serve on these committees:

- Audit, comprised of Alan W. Kosloff, Dennis E. Logue and Ronald C. Reimer. Mr. Logue will serve as Chairman of the Audit Committee.
- Compensation, comprised of Alan W. Kosloff, Ronald C. Reimer and Jerry W. Walton. Mr. Reimer will serve as Chairman of the Compensation Committee.
- Corporate Governance, comprised of Alan W. Kosloff, Dennis E. Logue, Ronald C. Reimer, William L. Rogers and Jerry W. Walton. Mr. Rogers will serve as Chairman of the Corporate Governance Committee.
- Executive, comprised of Henry J. Herrmann, Alan W. Kosloff and William L. Rogers. Mr. Kosloff will serve as Chairman of the Executive Committee.

*Audit Committee.* The Audit Committee (1) appoints, terminates, retains, compensates and oversees the work of the independent auditors, (2) pre-approves all audit, review and attest services and permitted non-audit services provided by the independent auditors, (3) oversees the performance of the Company's



internal audit function, (4) evaluates the qualifications, performance and independence of the independent auditors, (5) reviews external and internal audit reports and management's responses thereto, (6) oversees the integrity of the financial reporting process, system of internal accounting controls, and financial statements and reports of the Company, (7) oversees the Company's compliance with legal and regulatory requirements, (8) reviews the Company's annual and quarterly financial statements, including disclosures made in Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in periodic reports filed with the SEC, (9) discusses with management earnings press releases, (10) meets with management, the internal auditors, the independent auditors and the Board, (11) provides the Board with information and materials as it deems necessary to make the Board aware of significant financial, accounting and internal control matters of the Company, (12) oversees the receipt, investigation, resolution and retention of all complaints submitted under the Company's Whistleblower Policy, (13) produces an annual report for inclusion in the Company's proxy statement, and (14) otherwise complies with its responsibilities and duties as set forth in the Company's Audit Committee Charter. The Audit Committee Charter and the Company's Whistleblower Policy can be found on the Corporate Governance page of the Corporate section of our website at [www.waddell.com](http://www.waddell.com). The Audit Committee Charter is also attached as *Appendix A* to this Proxy Statement.

The Board has determined that all three members of the Audit Committee satisfy the independence and other requirements for audit committee membership of Sections 303A.02, 303A.06 and 303A.07 of the NYSE corporate governance standards and Rule 10A-3 of the Securities Exchange Act of 1934, as amended (the Exchange Act). The Board has also made the determination that Messrs. Kosloff, Logue and Reimer have the attributes of an audit committee financial expert as set forth in Item 401(h) of Regulation S-K. The Board determined that these members acquired such attributes through their experience in preparing, auditing, analyzing or evaluating financial statements containing accounting issues as generally complex as the Company's financial statements, or actively supervising one or more persons engaged in such activities, and their experience of overseeing or assessing the performance of companies and public accountants with respect to the preparation, auditing or evaluation of financial statements. In 2005, the Audit Committee met six times and acted by unanimous written consent on one occasion. All of the members attended at least 75% of the meetings of this committee. For additional information concerning the Audit Committee, see Report of the Audit Committee.

*Compensation Committee.* The Compensation Committee, among other things, (1) determines and approves the compensation of the Company's senior executive officers, including the Chief Executive Officer, (2) reviews and approves the annual performance goals and objectives of the Company's senior executive officers, including the Chief Executive Officer, (3) reviews and approves compensation recommendations for the Company's outside directors, (4) assesses the adequacy and competitiveness of the Company's executive and director compensation programs, (5) administers the Company's incentive compensation and other equity-based compensation plans, and (6) produces an annual report on executive compensation for inclusion in the Company's proxy statement. The Compensation Committee Charter can be found on the Corporate Governance page of the Corporate section of our website at [www.waddell.com](http://www.waddell.com).

None of the individuals serving on the Compensation Committee has ever been an officer or employee of the Company. The Board has determined that all of the members of the Compensation Committee satisfy the independence requirements of Rule 303A.02 of the NYSE corporate governance standards. Additionally, all of the members of the Compensation Committee qualify as non-employee directors for purposes of Rule 16b-3 of the Exchange Act, and as outside directors for purposes of Section 162(m) of the Internal Revenue Code. The Compensation Committee met five times in 2005 and acted by unanimous written consent on four occasions. All of the members attended at least 75% of the meetings of this committee. For additional information concerning the Compensation Committee, see Report of the Compensation Committee.

*Corporate Governance Committee.* The Corporate Governance Committee, among other things, (1) develops and reviews the Company's Corporate Governance Guidelines, (2) assists the Board in identifying, screening and recruiting qualified individuals to become Board members, (3) proposes nominations for Board membership and committee membership, (4) assesses the composition of the Board and its committees, and (5) oversees the performance of the Board and committees thereof. The Nominating and Corporate Governance Committee Charter can be found on the Corporate Governance page of the Corporate section of our website at [www.waddell.com](http://www.waddell.com).

The Corporate Governance Committee is comprised of William L. Rogers, Chairman, Alan W. Kosloff, Dennis E. Logue, Ronald C. Reimer and Jerry W. Walton. Messrs. Kosloff, Logue, Reimer, Rogers and Walton served as members of the Corporate Governance Committee during the entire 2005 year, and Mr. Raines served during the entire 2005 year until his resignation from the Corporate Governance Committee in October 2005. The Board has determined that all of the members of the Corporate Governance Committee satisfy the independence requirements of Rule 303A.02 of the NYSE corporate governance standards. The Corporate Governance Committee met nine times in 2005. All of the members attended at least 75% of the meetings of this committee.

*Executive Committee.* The Executive Committee may exercise certain powers of the Board between scheduled Board meetings and may perform such duties as the Board may authorize from time to time. The Executive Committee did not meet in 2005.

#### ***Compensation of Directors***

The Board, upon the recommendation of the Compensation Committee, approves annual compensation for directors who are not officers or employees of the Company or its subsidiaries (the Outside Directors). Annual compensation for Outside Directors has historically consisted of (1) a retainer and meeting fees payable in cash, and (2) an award of either stock options or, in more recent years, restricted stock. Outside Directors are granted 5,000 shares of the Company's restricted Class A common stock upon their initial election to the Board. Thereafter, following the first year of service, Outside Directors are granted an annual formula-based award consisting of either 4,500 non-qualified stock options or 1,500 shares of restricted stock, as the Board determines in its discretion under the Company's 1998 Stock Incentive Plan, as amended and restated (the Stock Incentive Plan). Under the Stock Incentive Plan, the Board may also award Outside Directors non-qualified stock options or restricted stock on a non-formula basis at such times as it determines appropriate. Restricted shares granted to Outside Directors do not have an exercise price and vest in one-third increments annually, beginning on the second anniversary of the grant date. Outside Directors are also reimbursed for travel and lodging expenses incurred in attending meetings. Outside Directors are not compensated for the execution of written consents in lieu of Board and committee meetings.

In 2005, Outside Directors received the following compensation:

- An annual retainer of \$40,000;
- Meeting fees of \$2,000 for each Board meeting attended;
- Meeting fees of \$1,500 for each committee meeting attended, as applicable, with the Chairman of each committee receiving an additional \$500 per committee meeting;
- An annual formula-based award of 1,500 shares of restricted stock; and
- A discretionary award of an additional 2,000 shares of restricted stock.

Upon the election of Mr. Kosloff as the non-executive Chairman of the Board in May 2005, the Board determined that the Chairman of the Board would receive an annual retainer of \$100,000 and a discretionary award of 6,000 shares of restricted stock, in lieu of the retainer and discretionary award

discussed above. Mr. Kosloff's annual retainer and discretionary restricted stock award were pro-rated as of May 25, 2005 for the remainder of his service in 2005 as Chairman of the Board, and as a result, he received an additional \$36,329 for his retainer and an additional award of 3,632 shares of restricted stock for his discretionary award.

Outside Directors may annually elect to convert all or a portion of their annual cash compensation into restricted shares of the Company's Class A common stock under the Company's 1998 Non-Employee Director Stock Award Plan, as amended and restated (the "NED Plan"). In 2005, Messrs. Kosloff, Logue, Reimer, Rogers and Walton made this election and their annual cash compensation was converted into 2,845, 2,531, 2,531, 2,154 and 2,405 shares of restricted stock, respectively. In conjunction with transitional relief pursuant to the American Jobs Creation Act of 2004, the Board approved the conversion of previously deferred fees from 2002 for Mr. Logue and from 2002 and 2004 for Mr. Rogers into 1,479 and 5,054 shares of restricted stock, respectively, which were granted on December 9, 2005. These restricted shares do not have an exercise price and vest in one-third increments annually, beginning on the second anniversary of the grant date. Outside Directors receive cash dividends on their restricted stock at the same rate dividends are paid to stockholders generally. In 2005, Messrs. Kosloff, Logue, Raines, Reimer, Rogers and Walton received \$4,897, \$3,619, \$2,100, \$3,619, \$3,392 and \$3,543, respectively, in dividends on shares of restricted stock granted in 2005.

At their election, Outside Directors and their spouses are also eligible to participate in the Company's group health insurance plan, a portion of the premiums for which are paid by the Company. To date, Messrs. Kosloff, Raines and Reimer have made such an election. Additionally, Mr. Logue was permitted to use Company aircraft for transportation in seeking medical treatment on one occasion in 2005, the aggregate incremental cost of which was determined to be \$11,435.

Directors who are officers or employees of the Company or its subsidiaries waive receipt of all fees, including the annual retainer, for attending Board meetings and committee meetings. Officer or employee directors are reimbursed for travel and lodging expenses incurred in attending the meetings only.

#### ***Code of Business Conduct and Ethics***

The Board has adopted a Corporate Code of Business Conduct and Ethics that applies to all of the Company's directors, officers and employees. The purpose and role of this code is to focus our directors, officers and employees on areas of ethical risk, provide guidance to help them recognize and deal with ethical issues, provide mechanisms to report unethical or unlawful conduct, and to help enhance and formalize our culture of integrity, honesty and accountability. The Company will post on the Corporate Governance page of the Corporate section of its website at [www.waddell.com](http://www.waddell.com) any amendments or waivers of any provision of this code made for the benefit of executive officers or directors of the Company.

#### ***Corporate Governance Guidelines***

The Board has adopted Corporate Governance Guidelines to assist the Board in the exercise of its responsibilities to the Company and its stockholders. The guidelines address, among other items, director responsibilities, Board committees and director compensation.

#### ***Section 16(a) Beneficial Ownership Reporting Compliance***

Section 16(a) of the Exchange Act requires each director, officer and any individual beneficially owning more than 10% of the Company's Class A common stock to file with the SEC reports of security ownership and reports on subsequent changes in ownership. These reports are generally due within two business days of the transaction giving rise to the reporting obligation.



To the Company's knowledge, all required Section 16(a) filings were timely and correctly made by reporting persons during 2005, except that due to administrative errors, Alan W. Kosloff did not timely file one report reporting one reportable transaction.

***Certain Relationships and Related Transactions***

In January 2000, the Company committed to invest up to a maximum of \$5 million by June 29, 2009 in a limited partnership interest in Halifax Capital Partners, L.P., a domestic investment group with \$200 million in partnership commitments. The Company's scheduled commitment period was set to expire on June 30, 2009, and could have been extended to June 30, 2011. William L. Rogers, a Director of the Company, is a general partner in Halifax Genpar, L.P., the Chairman of Halifax Capital Partners, L.P., and has investment participation in Halifax Capital Partners, L.P. In March 2005, the Board conducted its annual review of this investment and determined that the Company had a customary relationship with Halifax Capital Partners, L.P. that was carried on in the ordinary course of business on an arms-length basis, and that such relationship did not preclude Mr. Rogers from being deemed independent under the NYSE corporate governance standards or otherwise interfere with his exercise of independence and judgment as a director. On November 30, 2005, Company management approved the sale of its limited partnership interest in Halifax Capital Partners, L.P. to an unaffiliated third party for approximately \$2.0 million, which was based upon the Company's estimate of the fair market value of its investment in Halifax Capital Partners, L.P. At the time of the sale, the Company's undistributed cost basis in the partnership interest was approximately \$1.8 million. Although the Company did not obtain an independent valuation of its investment in Halifax Capital Partners, L.P. or the terms of the sale transaction, the sale transaction was negotiated on an arms-length basis without the involvement of Mr. Rogers. Following the completion of the sale, the Company no longer has any business relationship with Halifax Capital Partners, L.P.

***Termination of Employment and Change-In-Control Arrangements***

In connection with Keith A. Tucker's resignation as Director, Chairman of the Board and Chief Executive Officer of the Company, Mr. Tucker and the Company entered into a Consulting Agreement and a Mutual Release, both effective as of May 25, 2005. Under the Consulting Agreement, Mr. Tucker is required, upon the request of the Board, to provide a certain number of hours of managerial and advisory services to the Company and its affiliates on matters relating to the Company's business and legal affairs for a term of eight years. Mr. Tucker is entitled to be reimbursed for certain out-of-pocket business expenses incurred in providing the services. The Consulting Agreement also contains restrictive covenants regarding confidentiality, non-competition, non-solicitation and non-disparagement.

In exchange for his services and/or covenants, Mr. Tucker received (1) a lump sum payment of \$3 million and will receive \$375,000 annually during the term of the Consulting Agreement, (2) accrued and unpaid salary as of the date of his resignation, a pro rata distribution of his 2005 cash incentive award and accrued and unpaid vacation pay for 2005, all of which are further described below in the Summary Compensation Table, (3) one-time participation in the Company's Stock Option Restoration Program in August 2005, as further described below in the Stock Option Grant Table, (4) office and support staff assistance not in excess of \$100,000 per year during the term of the Consulting Agreement, and (5) health insurance coverage (on terms no less favorable than are in effect for senior executives of the Company) for himself and his wife until each of their deaths; provided, however, that in no event will the Company be responsible for such coverage in excess of the Company's costs to insure senior executive officers generally per year. Additionally, under the terms of the Consulting Agreement, Mr. Tucker's previously granted 198,189 shares of unvested restricted Class A common stock will continue to vest in accordance with the original terms of the applicable vesting schedules. On the date of his resignation, Mr. Tucker qualified for early retirement and in the Consulting Agreement, the Company acknowledged that Mr. Tucker's

resignation would be deemed early retirement under the Stock Incentive Plan. Accordingly, pursuant to the terms of the Stock Incentive Plan, the 1,852,745 stock options previously granted to him under such plan will remain exercisable for three years following the date of his resignation. The Company also acknowledged that, upon Mr. Tucker's resignation, he would be fully vested in his Supplemental Executive Retirement Plan (the SERP) account, and therefore, be entitled to receive the accrued balance of \$2,595,240 pursuant to the terms of the SERP.

The Consulting Agreement is terminable (1) by Mr. Tucker for any reason upon 30 days prior written notice to the Company, (2) by Mr. Tucker upon the Company's material breach of the Consulting Agreement if such breach remains uncured for 15 days after written notice thereof, (3) by the Company for cause, or (4) without any action on the part of either party upon Mr. Tucker's death or disability. Under the Consulting Agreement, cause means Mr. Tucker's (1) commission of an act of fraud, dishonesty or embezzlement against the Company, (2) willful commission of an act intending to cause, and causing, material damage to the Company, (3) willful refusal to perform his duties under the Consulting Agreement, which continues for a period of 10 days after written notice thereof, (4) conviction of a felony involving moral turpitude, or (5) material violation of any of the restrictive covenants regarding confidentiality, non-competition, non-solicitation and non-disparagement, or his failure to cooperate with the Company's reasonable requests regarding information requests about his knowledge of the Company's business and legal affairs, and such violation remains uncured after 15 days written notice thereof. Under the Consulting Agreement, disability means Mr. Tucker becomes disabled and unable to perform the services for an aggregate of 150 days within any 180-day period and the Board subsequently determines in good faith that Mr. Tucker has become physically or mentally disabled for an additional period of 120 days in the subsequent 180-day period.

The Mutual Release provides a broad mutual release of possible claims by both Mr. Tucker and the Company.

In December 2001, the Company entered into Change in Control Employment Agreements with Messrs. Keith A. Tucker and Henry J. Herrmann. Mr. Tucker's agreement terminated upon his resignation as Chief Executive Officer in May 2005. Mr. Herrmann's agreement provides that if after a change in control occurs, his employment is terminated (1) by the Company without cause, or (2) by Mr. Herrmann with good reason, which includes his resignation for any reason during the 30-day period immediately following the six-month anniversary of the change in control, Mr. Herrmann will receive (i) all earned or accrued compensation through the termination date, (ii) a lump sum cash payment equal to 2.99 times his base salary and annual bonus, in addition to a gross-up payment to pay for any applicable excise taxes, (iii) all vested equity-based awards granted under the Company's stock incentive plans, which will be deemed to be exercisable for the remainder of their respective terms, (iv) continuation of benefits for Mr. Herrmann and his dependents under the Company's insurance and benefit plans for three years, (v) a pro rata payment of his target annual cash bonus as of the termination date, (vi) an amount equal to the excess of the actuarial equivalent of the benefits he would have received under the Company's Retirement Income Plan and SERP had his employment with the Company continued for three years after the date of termination over the actuarial equivalent of his benefits actually paid or payable under such plans, and (vii) outplacement services. In addition, the Company will pay or provide Mr. Herrmann any other amounts or benefits required to be paid or provided or that he is eligible to receive under any other plan, program, policy, practice, contract or agreement of the Company in accordance with the applicable terms. Generally, under the agreement, (1) a change in control will be deemed to have occurred (i) when any person acquires 20% or more of the voting power of the Company, (ii) if, during any period of two consecutive years, a majority of the Board members change, unless the new directors are elected or recommended by at least two-thirds of the existing Board members, or (iii) upon the acquisition of the Company; (2) cause means Mr. Herrmann (i) materially engaged in willful misconduct or dishonesty, (ii) was convicted of a felony, or (iii) materially breached the agreement; and (3) good reason means

(i) a material diminution in Mr. Herrmann's position, title, or nature of responsibilities or authority, (ii) a reduction in his compensation or benefits or the failure of the Company to increase his compensation at a rate commensurate with that of other senior executive officers of the Company, (iii) relocating Mr. Herrmann, (iv) the Company materially breaching the agreement, or (v) as explained above, Mr. Herrmann's resignation of employment with the Company for any reason during the 30-day period immediately following the six-month anniversary of the change in control. The agreement also contains confidentiality provisions.

***Compensation Committee Interlocks and Insider Participation***

During the fiscal year ending December 31, 2005, none of the Company's executive officers served on the board of directors of any entities whose directors or officers serve on the Company's Compensation Committee. No current or past executive officers of the Company serve on the Compensation Committee.

**PRINCIPAL STOCKHOLDERS OF THE COMPANY**

The following table lists all persons known to be the beneficial owner of more than 5% of the Company's Class A common stock as of December 31, 2005. Unless otherwise indicated in the footnotes below, "beneficially owned" means the sole power to vote or direct the voting of a security and the sole power to dispose or direct the disposition of a security.

Name and Address	Number of Shares	Percent of Class
Mac-Per-Wolf Company (1) 311 S. Wacker Drive, Suite 6000 Chicago, IL 60606	5,336,968	6.4 %
T. Rowe Price Associates, Inc. (2) 100 E. Pratt Street Baltimore, MD 21202	4,573,091	5.4 %
Keith A. Tucker (3) 200 Crescent Court, Suite 1040 Dallas, TX 75201	4,598,269	5.3 %

(1) These shares are owned by (i) the reporting stockholder, and (ii) various investment advisory clients for whom Janus Capital Management LLC and/or Perkins, Wolf, McDonnell and Company, an indirect investment advisor subsidiary thereof, serve as investment advisor or sub-advisor (collectively, "Janus"). The reporting stockholder shares voting and dispositive power for 5,139,406 shares with Janus. Information relating to this stockholder is based on the stockholder's Schedule 13G filed with the SEC on February 15, 2006.

(2) These shares are owned by various individuals and institutional investors, including T. Rowe Price Mid-Cap Growth Fund, Inc., for whom T. Rowe Price Associates, Inc. ("Price Associates") serves as investment adviser. For purposes of the reporting requirements of the Exchange Act, Price Associates is deemed to be the beneficial owner of such securities; however, Price Associates expressly disclaims beneficial ownership of such securities. Information relating to this stockholder is based on the stockholder's Schedule 13G, Amendment No. 10, filed with the SEC on February 14, 2006.

(3) These shares are owned by Mr. Tucker indirectly by a personal trust, limited liability company, family limited partnership or IRA account, and include 2,401,181 shares that are subject to presently exercisable Class A stock options and options exercisable within 60 days. Information relating to this stockholder is based on the stockholder's Schedule 13G, Amendment No. 4, filed with the SEC on February 14, 2006.

## EXECUTIVE COMPENSATION

### REPORT OF THE COMPENSATION COMMITTEE

*Notwithstanding anything to the contrary set forth in any filings of Waddell & Reed Financial, Inc. (the "Company") under the Securities Act of 1933, as amended (the "Securities Act"), or the Securities Exchange Act of 1934, as amended (the "Exchange Act") that might incorporate future filings by reference, including this Proxy Statement, in whole or in part, the following Report of the Compensation Committee shall not be incorporated by reference into any such filings, and shall not be deemed soliciting material as filed under the Securities Act or the Exchange Act.*

The Compensation Committee is comprised of Ronald C. Reimer, Chairman, Alan W. Kosloff and Jerry W. Walton, none of whom are officers or employees of the Company and all of whom have been determined by the Board of Directors of the Company (the "Board") to be independent pursuant to Section 303A.02 of the corporate governance standards of the New York Stock Exchange (the "NYSE"), the exchange on which the Company's Class A common stock is traded. Additionally, all of the members of the Compensation Committee qualify as "non-employee directors" for purposes of Rule 16b-3 of the Exchange Act, and as "outside directors" for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"). Messrs. Kosloff and Walton served as members of the Compensation Committee during the entire 2005 year; Mr. Reimer was appointed a member and Chairman in July 2005 and Mr. Raines served during the entire 2005 year until his resignation from the Compensation Committee in October 2005. The Compensation Committee operates under a written charter adopted by the Board, a copy of which is available on the Corporate Governance page of the Corporate section of the Company's website at [www.waddell.com](http://www.waddell.com). In carrying out its responsibilities, the Compensation Committee, among other things:

- Determines and approves the annual salaries and bonuses of the Chief Executive Officer and other senior executive officers for the current year;
- Reviews and approves annual corporate goals and objectives and rewards outstanding annual performance of the Chief Executive Officer and other senior executive officers;
- Grants equity compensation awards under the Company's 1998 Stock Incentive Plan, as amended and restated (the "Stock Incentive Plan") and the Company's 1998 Executive Stock Award Plan, as amended and restated (the "ESA Plan"), which are generally performance-based awards deductible under Section 162(m) of the Code;
- Establishes and certifies the achievement of performance goals under the Company's 2003 Executive Incentive Plan, as amended and restated (the "Executive Incentive Plan");
- Determines the executive officers eligible to participate in the Executive Incentive Plan, the ESA Plan, and the Company's Supplemental Executive Retirement Plan, as amended and restated (the "SERP");
- Reviews and approves compensation recommendations for the Company's director compensation program; and
- Administers other Company compensation programs.

In 2005, the Compensation Committee retained Frederic W. Cook & Co., Inc. to review certain of its executive compensation policies and practices. The Compensation Committee met five times in 2005, four occasions of which were to discuss the salaries, bonuses, and other compensation of the senior executive officers and other key employees of the Company, including the Chairman of the Board and the Chief Executive Officer. The Compensation Committee also acted by unanimous written consent on four occasions in 2005.

### ***General Compensation Policy***

The Compensation Committee acknowledges that the investment management and financial services industries are highly competitive and that experienced professionals have significant career mobility. The Compensation Committee believes that the ability to attract, retain and provide appropriate incentives for professional personnel, including the senior executive officers and other key employees of the Company, is essential to maintaining the Company's competitive position in the industries in which it operates, and thereby provide for the long-term success of the Company.

The Company's executive compensation program is designed to provide fair compensation to executives based on their performance and contributions to the Company, provide incentives to attract and retain key executives, and instill a long-term commitment to the Company through Company ownership, all in a manner consistent with stockholder interests.

The executive compensation package has three main components: (1) base salary, which is reviewed annually, (2) equity compensation consisting of stock options and/or restricted stock, and (3) incentive payments under the Executive Incentive Plan, which may be earned annually depending on the Company's achievement of pre-established performance goals.

The ESA Plan permits eligible executives to elect to convert all or a portion of their salary and annual bonus into restricted stock of the Company in lieu of cash. The Compensation Committee sets the exercise price of restricted stock, if any, in its discretion and the restricted stock typically vests in one-third increments annually, beginning on the second anniversary of the grant date. For 2005, the Compensation Committee designated eight executives, including Henry J. Herrmann and Keith A. Tucker, eligible to participate in the ESA Plan and designated Messrs. Herrmann and Tucker eligible to participate in the SERP. Upon his resignation on May 25, 2005, Mr. Tucker was no longer eligible to participate in the ESA Plan or the SERP.

For 2005, the Compensation Committee reviewed and approved the salary of Mr. Tucker, the Company's Chief Executive Officer until his resignation in May 2005, and the salary of Mr. Herrmann, who was elected Chief Executive Officer following Mr. Tucker's resignation. As part of its oversight of the Company's compensation programs, the Compensation Committee also approved the non-employee directors' fees and the salaries paid to other senior executive officers of the Company during 2005.

### ***Base Salary***

The Compensation Committee believes that competitive levels of cash compensation, together with equity and other incentive programs, are necessary for the motivation and retention of the Company's executives. Consistent with compensation practices generally applied in the investment management and financial services industries with which the Company competes for employees, base salaries for senior executive officers are generally intended to form a lesser percentage of total cash compensation with a greater portion of cash compensation intended to be earned from payments made under the Executive Incentive Plan, provided, of course, that the performance goals established under that plan are met. Generally, executive base salaries are not directly related to specific measures of corporate performance, but are determined by tenure of service, current job responsibilities, the relative salaries of peers in the investment management and financial services industries, and to a lesser extent, upon a subjective evaluation of each executive's contribution to the Company's corporate and financial goals and objectives.

### ***Equity Compensation Program***

Shares of restricted stock and stock options of the Company are granted under the Stock Incentive Plan in an effort to link executives' future compensation to the long-term financial success of the Company. These equity incentive awards are intended to attract and retain employees who contribute

to the Company's success, to provide incentives to enhance job performance of executives, and to enable those persons to participate in the long-term success and growth through an equity interest in the Company. To this end, the Compensation Committee grants restricted stock and to a lesser extent, non-qualified stock options, to senior executive officers and other key employees of the Company. The total number of shares of restricted stock or stock options that may be awarded to such officers and key employees is within the discretion of the Compensation Committee and is generally based on the Company's performance and the individual's current level of compensation. The number of shares of restricted stock or stock options previously granted to an individual may be, but is not always, a consideration in determining the amount of awards granted to that individual in the future.

In 2002, the Compensation Committee began granting restricted stock in lieu of stock options under the Stock Incentive Plan. The Compensation Committee believes restricted stock awards are currently more effective than stock options in achieving the Company's compensation objectives, as restricted stock is subject to less market volatility and is potentially less dilutive to the Company's stock. Employees realize immediate value as restricted stock awards vest, with such value increasing as the Company's stock performance increases.

Generally, restrictions placed on restricted stock awards lapse in one-third increments on each of the second, third and fourth anniversaries of the grant date and the exercise price, if any, of shares of restricted stock is determined by the Compensation Committee in its discretion.

The Compensation Committee anticipates granting restricted stock awards in lieu of stock options for the foreseeable future, but in the event stock options are granted, such stock options will be granted with an exercise price equal to 100% of the fair market value of the Company's Class A common stock on the grant date and generally, will be exercisable to the extent of one-third of the shares on the second, third and fourth anniversary of the grant date. The exercise price of stock options may be satisfied with payment of cash or previously owned Company stock, or through a cashless simultaneous exercise and sale program.

Although the Company intends to issue restricted stock in lieu of stock options for the foreseeable future, in 2005 and prior years, the Company has issued stock options pursuant to the terms of its stock option restoration program (the "SORP"), a feature contained in the Company's equity compensation plans allowing for the use of this feature on the first trading day of August of each year. Pursuant to the SORP, participants exercising certain stock options by making payment of the exercise price with previously owned Company common stock are entitled to receive an additional stock option award equal to the sum of the number of shares exchanged in payment of the exercised stock option and the number of shares surrendered to cover the associated tax liabilities, if any. In 2005, the Compensation Committee issued stock options for an aggregate of 275,588 shares of common stock, all of which were granted to eight participants pursuant to their participation in the SORP.

### ***Incentive Payments***

Incentive payments are made under the Executive Incentive Plan upon achievement of pre-established performance goals. Incentive payments are made in the form of cash, stock options, restricted stock or a combination thereof, at the discretion of the Compensation Committee. Incentive payments awarded pursuant to the achievement of pre-established performance goals in the form of stock options or restricted stock are awarded from the shares reserved for issuance under the Stock Incentive Plan. Additionally, the Compensation Committee may, in its sole discretion, direct that all or a portion of the cash incentive payments payable under the Executive Incentive Plan be paid in restricted stock or stock options in lieu of cash and any such shares of restricted stock or stock options are awarded from the shares reserved for issuance under the ESA Plan.

For 2005, cash incentive awards and awards of restricted stock could be awarded upon the achievement of established performance goals as adopted by the Compensation Committee in the first

quarter of 2005. For each executive, cash awards are calculated based upon a designated percentage of a formula incentive pool, which the Compensation Committee established as four percent of the Company's 2005 adjusted operating income. Each executive's award of restricted stock is based upon similar designated percentages of the aggregate restricted stock award amount available for issuance to participants upon the attainment of a targeted adjusted return on equity. For 2005, the Compensation Committee set the aggregate restricted stock award available for issuance to the Company's senior executive officers at 420,000 shares upon the attainment of a 40% adjusted return on equity.

The Compensation Committee, in its discretion, designates the senior executive officers of the Company that are eligible to receive incentive awards under the Executive Incentive Plan, as well as sets the percentage of the incentive awards each participant is entitled to earn upon achievement of the performance goals. Additionally, notwithstanding the achievement of the pre-established performance goals, the Compensation Committee reserves the right to reduce or eliminate entirely the amount of incentive awards payable to any participant in its discretion, but any such reduction may not increase the awards of another participant. As discussed above, the Compensation Committee may also direct that all or a portion of the incentive awards payable under the Executive Incentive Plan be paid in restricted stock or stock options in lieu of cash. For 2005, designated participants were allocated percentages of the aggregate awards ranging from a low of 4.5% to a high of 24%. For 2005, Mr. Herrmann was entitled to receive up to 24% of both the aggregate cash awards and restricted stock awards granted under the Executive Incentive Plan. However, for all senior executive officers, including Mr. Herrmann, the Compensation Committee exercised its discretion to award cash and restricted stock incentive awards of amounts less than the maximum amounts the executives were eligible to receive. For 2005, the Company paid aggregate cash incentive awards of \$3,720,137 and granted aggregate restricted stock awards of 245,000 shares to the seven senior executive officers participating in the Executive Incentive Plan at the end of 2005. Mr. Tucker did not receive an incentive award of restricted stock in 2005.

#### ***Compensation of the Chief Executive Officer***

As described elsewhere in this Proxy Statement, Keith A. Tucker resigned as our Chief Executive Officer effective May 25, 2005 after nearly 15 years of service to the Company and its predecessor. Upon Mr. Tucker's resignation, Henry J. Herrmann was elected our Chief Executive Officer.

#### ***Keith A. Tucker***

For 2005, Mr. Tucker received a base salary through the date of his resignation at an annual rate of \$800,016. Mr. Tucker's base salary was not directly related to specific measures of corporate performance, but was determined by his tenure of service, job responsibilities, the relative salaries of his peers in the investment management and financial services industries and, to a lesser extent, upon a subjective evaluation of his contribution to the Company's corporate and financial goals and objectives. In March 2005, Mr. Tucker's annual incentive awards under the Executive Incentive Plan were designated at a maximum of 24% of the aggregate awards of cash and restricted stock granted under the Executive Incentive Plan, with his cash incentive award based upon the Company's 2005 adjusted operating income and his incentive restricted stock award based upon the Company's adjusted return on equity, as more fully described above. Pursuant to the terms of the Executive Incentive Plan, upon his resignation as our Chief Executive Officer in May 2005, Mr. Tucker was eligible to receive a pro rata portion of his incentive awards. Under the terms of his Consulting Agreement, discussed below, Mr. Tucker received the \$470,137 pro rata portion of his cash incentive award; however, the Compensation Committee did not award Mr. Tucker any portion of the 2005 incentive restricted stock award he was eligible to receive.

Upon his resignation as our Chief Executive Officer in May 2005, Mr. Tucker entered into a Consulting Agreement with the Company. Under the Consulting Agreement, Mr. Tucker agreed, among other things, to provide managerial and advisory services to the Company and its affiliates for a term of



eight years. The Consulting Agreement also contained restrictive covenants regarding confidentiality, non-competition, non-solicitation and non-disparagement. In exchange for his services and/or covenants, Mr. Tucker received a lump sum payment of \$3 million and will receive \$375,000 annually during the term of the Consulting Agreement, the pro rata distribution of his 2005 cash incentive award, one-time participation in the SORP, accrued and unpaid base salary, accrued and unpaid vacation pay, health insurance coverage for himself and his spouse, and certain office and support staff expenses. Additionally, under the terms of the Consulting Agreement, Mr. Tucker's previously granted 198,189 shares of unvested restricted Class A common stock will continue to vest in accordance with the original terms of the applicable vesting schedules. The Company also acknowledged that, upon Mr. Tucker's resignation, he would be fully vested in his SERP account, and therefore, be entitled to receive the accrued balance of \$2,595,240 pursuant to the terms of the SERP.

In 2005, Mr. Tucker also received stock options to purchase 271,194 shares of Class A common stock pursuant to his one-time participation in the SORP, which is equal to the number of shares of the Company's Class A common stock he tendered in payment of the exercise price of stock options and associated tax liabilities.

*Henry J. Herrmann*

Upon Mr. Tucker's resignation, Mr. Herrmann was elected our Chief Executive Officer. For 2005, Mr. Herrmann received a base salary of \$800,000, the same salary he was receiving as the Company's Chief Investment Officer and President, and which has remained unchanged since 2001. Additionally, under the Executive Incentive Plan, Mr. Herrmann received a cash incentive award of \$1.2 million and an incentive award of 100,000 shares of restricted stock to be granted April 3, 2006. The 100,000 shares of restricted stock will be issued from the shares reserved for issuance under the Stock Incentive Plan. Mr. Herrmann also participated in the Company's SERP, pursuant to which \$300,000 was contributed to his SERP account in 2005.

Mr. Herrmann's base salary is not directly related to specific measures of corporate performance, but is determined by his tenure of service, current job responsibilities, the relative salaries of his peers in the investment management and financial services industries and, to a lesser extent, upon a subjective evaluation of his contribution to the Company's corporate and financial goals and objectives. Mr. Herrmann's cash incentive award was based upon the Company's 2005 adjusted operating income and his incentive restricted stock award was based upon the Company's adjusted return on equity, as both are more fully described above. Mr. Herrmann's annual incentive awards under the Executive Incentive Plan were designated at a maximum of 24% of the aggregate awards of cash and restricted stock granted under the Executive Incentive Plan. However, the Compensation Committee exercised its right under the Executive Incentive Plan and reduced both the aggregate incentive cash award and restricted stock award Mr. Herrmann was eligible to receive.

In 2005, the Compensation Committee retained Frederic W. Cook & Co., Inc. to review Mr. Herrmann's compensation. As part of its analysis, Frederic W. Cook & Co., Inc. reviewed industry and peer groups that it believes is representative of companies that the Company competes for executive talent with and compared Mr. Herrmann's compensation to his peers in those groups. The peer group of investment management and financial services companies included Affiliated Managers Group, Alliance Capital Management Holding L.P., Blackrock, Inc., Eaton Vance Corp., Federated Investors, Inc., Franklin Resources, Inc., GAMCO Investors, Inc. (formerly Gabelli Asset Management, Inc.), Nuveen Investments, Inc. (formerly John Nuveen Co.), T. Rowe Price Group, Inc. and Janus Capital Group (formerly Stilwell Financial, Inc.).

### ***Deductibility of Compensation***

In reviewing the effectiveness of the Company's compensation program, the Compensation Committee considers the anticipated tax treatment to the Company and to its executives of various payments and benefits. Section 162(m) of the Code provides that compensation paid to the Company's Chief Executive Officer and the next four most highly compensated officers (the "Covered Employees") in a single tax year in excess of \$1 million is not deductible for federal income tax purposes, unless such compensation is performance based and meets other conditions. Base salary does not qualify as performance-based compensation under Section 162(m) of the Code. Additionally, the deductibility of certain compensation payments depends upon the timing of an executive's vesting or exercise of previously granted awards, as well as interpretations and changes in the tax laws and other factors beyond the Compensation Committee's control. For these and other reasons, the Compensation Committee will not necessarily, or in all circumstances, limit executive compensation to that which is deductible under Section 162(m) of the Code.

The Compensation Committee will consider various alternatives to preserving the deductibility of compensation payments and benefits to the extent reasonably practicable and to the extent consistent with its other compensation objectives. To this end, the Compensation Committee annually establishes performance criteria under the Executive Incentive Plan in an effort to ensure deductibility of incentive compensation, both as to cash compensation and annual awards of restricted stock. In 2005, all compensation paid to the Company's Covered Employees was deductible by the Company.

### ***Accelerated Vesting of Stock Options***

On April 25, 2005, the Compensation Committee approved the accelerated vesting of all then outstanding unvested options previously awarded to employees, financial advisors, officers and directors under the Stock Incentive Plan, the ESA Plan and the NED Plan. This resulted in the accelerated vesting of 624,267 options, 447,497 of which were in-the-money options having an exercise price less than the \$18.10 closing price of the Company's Class A common stock on April 25, 2005. All of the in-the-money options were held by the Company's executive officers and directors and were the only options held by such persons. At the time of the option acceleration, the Compensation Committee imposed restrictions thereon that prevent the sale of any shares of the Company's Class A common stock acquired upon exercise of an accelerated option until such time as the option would have originally vested and been exercisable, other than dispositions of stock in payment for the exercise price of the options and associated taxes, if any. The decision to accelerate the vesting of these options was based on the belief that it was in the best interest of the stockholders to reduce future non-cash compensation expense that would have been recorded in future periods upon the Company's adoption of Financial Accounting Standards Board Statement No. 123, *Share Based Payment (revised 2004)* (FAS 123R) in the first quarter of 2006. The Company began applying the expense recognition provisions of FAS 123R effective January 1, 2006.

Subsequent to the Compensation Committee's decision to accelerate the vesting of these options, the resignation of Mr. Tucker triggered the re-measurement of compensation cost under current accounting standards and, as a result, the Company incurred compensation expense of \$1.4 million during the second quarter of 2005. The Company anticipates that all other in-the-money accelerated vesting option holders 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.

***Summary***

The Company believes it competes for executive talent with a large number of investment management, securities and other financial services companies, some of which are privately owned and others of which have significantly larger market capitalization than the Company. The Compensation Committee's goal is to maintain compensation programs that are competitive within the investment management and financial services industries. The Compensation Committee has compared the Company's compensation levels to relevant publicly available data for the investment management and financial services industries and has concluded that the Company's compensation levels are competitive. The Compensation Committee believes that the 2005 compensation levels disclosed in this report are fair, reasonable and appropriate in light of the Company's performance and believes that the compensation programs of the Company serve well the interests of the Company's stockholders. The Compensation Committee intends to continue to emphasize programs that it believes positively affect stockholder value.

**Waddell & Reed Financial, Inc. Compensation Committee**

**2005 Members**

Ronald C. Reimer, Chairman  
Alan W. Kosloff  
Jerry W. Walton

## REPORT OF THE AUDIT COMMITTEE

*Notwithstanding anything to the contrary set forth in any filings of Waddell & Reed Financial, Inc. (the Company) under the Securities Act of 1933, as amended (the Securities Act), or the Securities Exchange Act of 1934, as amended (the Exchange Act), that might incorporate future filings, including this Proxy Statement, in whole or in part, the following Report of the Audit Committee shall not be incorporated by reference into any such filings, and shall not be deemed soliciting material as filed under the Securities Act or the Exchange Act.*

The Audit Committee is comprised of Dennis E. Logue, Chairman, Alan W. Kosloff and Ronald C. Reimer. Messrs. Kosloff, Logue and Reimer served as members of the Audit Committee during the entire 2005 year. The Company's Board of Directors (the Board) has determined that all of the members of the Audit Committee satisfy the independence and other requirements for audit committee membership of Sections 303A.02, 303A.06 and 303A.07 of the corporate governance standards of the New York Stock Exchange (the NYSE) and Rule 10A-3 of the Exchange Act, and has also made the determination that Messrs. Kosloff, Logue and Reimer each have the attributes of an audit committee financial expert as defined by the regulations of the Securities and Exchange Commission (the SEC).

The Audit Committee operates under a written charter adopted by the Board. A copy of the Audit Committee Charter attached as *Appendix A* to this Proxy Statement and is available on the Corporate Governance page of the Corporate section of the Company's website at [www.waddell.com](http://www.waddell.com). In carrying out its responsibilities, the Audit Committee, among other things:

- Oversees the integrity of the financial reporting process, systems of internal controls, and financial statements and reports of the Company;
- Appoints, compensates, retains and oversees the Company's independent auditors, including reviewing the qualifications, performance and independence of the independent auditors;
- Reviews and pre-approves all audit, review and attest services and permitted non-audit services;
- Oversees the performance of the Company's internal audit function; and
- Oversees the Company's compliance with legal and regulatory requirements.

In 2005, the Audit Committee met six times and acted by unanimous consent on one occasion. The Audit Committee schedules its meetings with a view to ensuring that it devotes appropriate attention to all of its responsibilities and duties. The Audit Committee's meetings include, whenever appropriate, executive sessions with the Company's independent auditors and with the Company's internal auditors, in each case outside the presence of the Company's management.

In performing its oversight role, the Audit Committee reviewed the audited consolidated financial statements for the 2005 fiscal year and met and held discussions with management, the Company's internal auditors and KPMG LLP, the Company's independent auditors, to discuss those financial statements and the audit related thereto. Management has represented to the Audit Committee that the Company's consolidated financial statements were prepared in accordance with generally accepted accounting principles. The Company's independent auditors have represented to the Audit Committee that the audit of the Company's financial statements has been performed in accordance with the auditing standards of the Public Company Accounting Oversight Board.

The Audit Committee discussed with the independent auditors matters required to be discussed by Statement on Auditing Standards No. 61, as may be modified, supplemented or amended, which includes, among other items, matters related to the conduct of the audit of the Company's consolidated financial statements. The independent auditors also provided the Audit Committee with written disclosures and the letter required by Independence Standards Board Standard No. 1, as may be modified, supplemented or

amended, which relates to the auditors' independence from the Company and its related entities, and the Audit Committee discussed with the independent auditors their independence.

Based on the Audit Committee's discussions with management, the internal auditors and the independent auditors as described above, and upon its review of the representations of management and the independent auditors and the report of the independent auditors, the Audit Committee recommended to the Board that the Company's audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005, as filed with the SEC.

**Waddell & Reed Financial, Inc. Audit Committee**

**2005 Members**

Dennis E. Logue, Chairman

Alan W. Kosloff

Ronald C. Reimer

**Summary Compensation Table**

The following table sets forth the compensation paid to each person who served as the Company's Chief Executive Officer during 2005 and the Company's next four most highly compensated executive officers who were serving as such at the end of fiscal 2005 (collectively, the "Named Executive Officers") for the three most recent fiscal years.

Name and Principal Position	Year	Annual Compensation			Long Term Compensation		
		Salary(\$)	Bonus (\$)(1)	Other Annual Compensation \$(2)	Restricted Stock Awards \$(3)	Securities underlying Options (#)(4)	All other Compensation \$(5)
Henry J. Herrmann, Chief Executive Officer	2005	\$ 800,000	\$ 1,200,000	\$ 92,421	\$ 0	0	\$ 374,007
	2004	800,000	1,200,000	140,183	1,481,250	0	373,807
	2003	800,000	1,200,000	108,846	5,467,322	0	773,607
Keith A. Tucker, Former Chief Executive Officer	2005	\$ 333,340	\$ 470,137	\$ 175,513		271,194	\$ 6,945,943
	2004	800,016	1,200,000	274,666	1,481,250	132,573	374,042
	2003	800,016	1,200,000	203,472	1,875,750	396,877	365,922
Michael L. Avery, Senior Vice President & Chief Investment Officer	2005	\$ 375,000	\$ 500,000	\$ 11,655	\$ 0	0	\$ 8,400
	2004	N/A	N/A	N/A	N/A	N/A	N/A
	2003	N/A	N/A	N/A	N/A	N/A	N/A
Thomas W. Butch, Senior Vice President & Chief Marketing Officer	2005	\$ 391,667	\$ 360,000	\$ 20,796	\$ 40,000	0	\$ 8,400
	2004	350,000	405,000	21,390	637,471	0	8,200
	2003	345,000	405,000	14,065	1,198,970	0	8,000
John E. Sundeen, Jr., Senior Vice President & Chief Administrative Officer Investments	2005	\$ 350,000	\$ 315,000	\$ 15,635	\$ 35,000	0	\$ 8,400
	2004	350,000	360,000	13,962	533,724	0	8,200
	2003	325,000	405,000	10,417	1,415,316	0	8,000
Michael D. Strohm, Senior Vice President & Chief Operations Officer	2005	\$ 350,000	\$ 360,000	\$ 16,900	\$ 40,000	0	\$ 8,400
	2004	350,000	405,000	12,481	538,721	0	8,200
	2003	325,000	405,000	14,726	1,195,463	0	8,000

(1) Bonus amounts reported for Messrs. Avery and Sundeen exclude bonus amounts earned and deferred (in years prior to their election as an executive officer) as a portfolio manager under the Company's Portfolio Manager Deferred Compensation Plan, as amended and restated. These amounts include \$81,171 distributed in 2005 for Mr. Avery, and \$18,000 and \$36,000 distributed in 2004 and 2003, respectively, for Mr. Sundeen. Additionally, pursuant to the Company's 1998 Executive Stock Award Plan, as amended and restated (the "ESA Plan"), Messrs. Butch, Sundeen and Strohm received \$40,000, \$35,000 and \$40,000, respectively, of their 2005 bonuses in restricted Class A common stock, to be granted April 3, 2006; \$45,000, \$40,000 and \$45,000, respectively, of their 2004 bonuses in restricted Class A common stock granted April 2, 2005; and \$45,000, \$45,000 and \$45,000, respectively, of their 2003 bonuses in restricted Class A common stock granted April 2, 2004, all of which are reported in the Restricted Stock Awards column.

(2) This column includes the aggregate incremental cost to the Company of providing perquisites and personal benefits to the Named Executive Officers for the last three fiscal years. Although the cost of

perquisites and personal benefits provided to Messrs. Avery, Butch, Sundeen and Strohm did not meet the \$50,000 threshold for disclosure, the Company is voluntarily reporting these costs. Perquisites exceeding 25% of the total amount of all perquisites reported in this column are as follows:

- (a) Amounts for executive financial planning for (i) Mr. Herrmann of \$51,250 and \$86,788 in 2003 and 2004, respectively, and (ii) Mr. Tucker of \$102,500, \$184,788 and \$71,555 in 2003, 2004 and 2005, respectively.
- (b) Amounts for personal use of Company aircraft for Mr. Herrmann of \$37,054 and \$48,059 in 2003 and 2005, respectively; and for Mr. Tucker of \$81,716, \$69,809 and \$84,517 in 2003, 2004 and 2005, respectively. Pursuant to an executive security program established by the Compensation Committee and approved by the Board, the Company encourages Mr. Herrmann to use Company aircraft for personal as well as business travel when practicable. The value of personal aircraft usage reported above is based on the Company's direct operating costs. This methodology calculates our aggregate incremental cost based on the average weighted variable cost per hour of flight for fuel/oil expenses, mileage, trip-related maintenance, crew travel expenses, landing fees and other miscellaneous variable costs. Since the Company's aircraft are used primarily for business travel, this methodology excludes fixed costs which do not change based on usage, such as pilot salaries, the cost of the aircraft, depreciation and administrative expenses. On certain occasions, an executive's spouse or other family member may accompany the executive on a flight when such person is invited to attend the event for appropriate business purposes. No additional direct operating cost is incurred in such situations under the foregoing methodology.
- (c) Amounts for personal use of a Company provided automobile, including mileage, fuel, maintenance, insurance and property tax, registration and title fees, for Mr. Avery of \$11,655 in 2005; for Mr. Butch of \$10,762, \$11,124 and \$10,825 in 2003, 2004 and 2005, respectively; for Mr. Sundeen of \$10,417, \$10,901 and \$10,436 in 2003, 2004 and 2005, respectively; and for Mr. Strohm of \$10,805, \$11,018 and \$11,166 in 2003, 2004 and 2005, respectively.
- (d) Amounts for executive estate planning for Mr. Butch of \$6,894 in 2004 and for commercial airfare for Mr. Strohm's spouse of \$3,921 in 2003.

This column also includes tax payments made by the Company in 2005 on behalf of Messrs. Herrmann, Tucker, Butch and Strohm of \$2,819, \$1,894, \$2,748 and \$3,248, respectively, related to taxable values imputed to such persons for personal use of Company aircraft as determined for income tax purposes.

- (3) For 2005, includes bonus amounts for Messrs. Butch, Sundeen and Strohm of \$40,000, \$35,000 and \$40,000, respectively, received in restricted stock to be granted April 3, 2006, which will vest in one-third increments annually beginning April 3, 2008. Incentive awards of restricted stock earned in 2005 for Messrs. Herrmann, Avery, Butch, Sundeen and Strohm of 100,000, 30,000, 30,000, 25,000 and 25,000 shares, respectively, were determined December 8, 2005 (February 22, 2006 for Mr. Avery), will be granted April 3, 2006 and will vest in one-third increments annually beginning April 3, 2008. Incentive awards are calculated as a percentage of the maximum pool of shares available for award upon the attainment of certain performance goals. The 2005 incentive awards of restricted stock are not reflected in the above table because the value of such shares must be based upon the closing price of the Company's Class A common stock on the grant date, April 3, 2006, which is a date subsequent to the mailing of this Proxy Statement.

For 2004, includes bonus amounts received in restricted stock (for Messrs. Butch, Sundeen and Strohm) and incentive restricted stock awards for Messrs. Herrmann, Tucker, Butch, Sundeen and

Strohm totaling 75,000, 75,000, 32,277, 27,024 and 27,277 shares, respectively, granted April 2, 2005 and which vest in one-third increments annually beginning April 2, 2007.

For 2003, includes (i) the gross number of shares (including the number of shares withheld to cover taxes) of restricted stock issued pursuant to participation in the Company's option exchange offer in February 2003 (the 2003 Exchange Offer) for Messrs. Herrmann, Butch, Sundeen and Strohm of 204,415, 26,534, 42,406 and 29,893 shares, respectively, and (ii) bonus amounts received in restricted stock (for Messrs. Butch, Sundeen and Strohm) and incentive restricted stock awards for Messrs. Herrmann, Tucker, Butch, Sundeen and Strohm totaling 75,000, 75,000, 29,299, 26,799 and 26,799 shares, respectively, granted April 2, 2004 and which vest in one-third increments annually beginning April 2, 2006. The shares of restricted stock issued pursuant to the 2003 Exchange Offer were fully vested at grant, but remain subject to transfer restrictions that lapse in one-third increments annually, beginning March 31, 2005.

Dividends on all restricted shares are paid directly to these individuals at the same rate dividends are paid to stockholders generally. Messrs. Herrmann, Avery, Butch, Sundeen and Strohm will receive approximately \$60,000, \$18,000, \$19,043, \$15,913 and \$16,043, respectively, in dividends on their 2005 restricted stock grants (assuming a \$23.00 market price for the \$40,000, \$35,000 and \$40,000 of bonus amounts for Messrs. Butch, Sundeen and Strohm, respectively, received in restricted stock to be granted April 3, 2006). As of December 31, 2005, Messrs. Herrmann, Tucker, Avery, Butch, Sundeen and Strohm beneficially owned 250,362, 198,189, 67,696, 78,953, 77,039 and 72,418 shares of restricted stock, respectively, valued at \$5,250,091, \$4,156,023, \$1,419,585, \$1,655,644, \$1,615,508 and \$1,518,605, respectively, (based on a year end closing price of \$20.97 per share); these amounts for Messrs. Herrmann, Avery, Butch, Sundeen and Strohm include 74,884, 12,696, 9,695, 15,534 and 10,914 shares, respectively, that were issued pursuant to the 2003 Exchange Offer (which were fully vested at grant) that remain subject to transfer restrictions. Mr. Tucker was not eligible to participate in the 2003 Exchange Offer.

(4) For 2005, 2004 and 2003, all options granted by the Company were granted pursuant to the Company's Stock Option Restoration Program (the SORP). Pursuant to the terms of the 2003 Exchange Offer, all participants thereof waived their rights to participate in the SORP; however, Mr. Tucker was not eligible to participate in the 2003 Exchange Offer and consequently, he remained the only senior executive officer eligible to participate in the SORP in future years. Pursuant to the terms of his Consulting Agreement, Mr. Tucker is not eligible to participate in the SORP after 2005.

(5) Included in the balance for the 2005 fiscal year are (i) Company contributions to the Company 401(k) and Thrift Plan, as amended, (the 401(k) Plan) a funded qualified defined contribution plan, for Messrs. Herrmann, Avery, Butch, Sundeen and Strohm of \$8,400 each, (ii) the Company contribution to the Company's SERP for Mr. Herrmann of \$300,000, and (iii) the supplemental split-dollar life insurance policy premium paid by the Company on behalf of Mr. Herrmann of approximately \$65,607. Mr. Tucker's policy was redeemed by the Company following his resignation in May 2005. As previously disclosed, Mr. Herrmann's collateral assignment split-dollar policy was terminated and replaced with a new endorsement split-dollar policy following the enactment of the Sarbanes-Oxley Act of 2002 on July 30, 2002. The policy is owned by the Company (with the beneficiary selected by Mr. Herrmann in the event of his death prior to a termination of his service) and is governed by an agreement that entitles Mr. Herrmann to elect to have the policy rolled out to him following a termination of employment for any reason other than cause or death (as defined therein), provided that Mr. Herrmann pays to the Company the aggregate premiums, in full, the Company has paid on the policy. In the event the policy remains in force until Mr. Herrmann's death, the Company is entitled to receive, out of the proceeds of this policy, all Company-paid premiums. Mr. Herrmann is not entitled to any interest in the cash surrender value of this policy.



Mr. Tucker resigned from his positions as Director, Chairman of the Board and Chief Executive Officer on May 25, 2005. Pursuant to the terms of his Consulting Agreement, Mr. Tucker received the following compensation, which is included in the balance for the 2005 fiscal year: (i) a \$3,000,000 lump sum payment, (ii) \$375,000 annually for the eight year term of the Consulting Agreement, (iii) \$61,540 of unused vacation pay, (iv) \$6,667 in Company contributions to the 401(k) Plan, (v) health insurance coverage for Mr. Tucker and his wife through age 65 under the Company's group health plan with a present day value of approximately \$77,736, and (vi) accrued office and support staff expenses of not more than \$100,000 per year for the eight year term of the Consulting Agreement. In addition to these compensation amounts, under the Consulting Agreement, Mr. Tucker and his wife are entitled to certain health insurance coverage upon reaching the age of 65 that is not generally available to other employees of the Company, and Mr. Tucker's previously granted 198,189 shares of unvested restricted Class A common stock (valued at \$3,486,142 as of May 25, 2005) will continue to vest in accordance with the original terms of the applicable vesting schedules. In addition to the amounts reported in this column, Mr. Tucker also received a \$462,280 lump sum distribution of the benefits payable under the Company's pension plan and a \$2,595,240 distribution of benefits accrued in his SERP account as of May 25, 2005. See Termination of Employment and Change-In-Control Arrangements and Pension Programs for additional information regarding the terms of Mr. Tucker's Consulting Agreement and distributions under the Company's pension plan and SERP.

**Stock Option Grant Table**

The following table sets forth information concerning Class A common stock options granted to the Named Executive Officers during the fiscal year ending December 31, 2005.

Name	Individual Grants		Exercise or Base Price (\$/share)	Expiration Date	Grant Date Present Value (\$)(3)
	Shares Acquired on Exercise (#)(1)	% of Total Options Granted to Employees in Fiscal Year(2)			
Keith A. Tucker	57,144	20.7 %	\$ 19.39	12/15/09	\$ 172,003
	66,878	24.3 %	19.39	03/03/09	201,303
	88,704	32.2 %	19.39	01/30/08	266,999
	58,468	21.2 %	19.39	05/25/08	175,989

Henry J. Herrmann

Michael L. Avery

Thomas W. Butch

John E. Sundeen, Jr.

Michael D. Strohm

(1) All options granted to Mr. Tucker in 2005 were restoration options granted on August 1, 2005 pursuant to the Company's SORP. A restoration option is an option granted when an optionee exercises a non-qualified stock option by making payment with previously owned Company Class A common stock (referred to herein as a "SORP Transaction"). A restoration option is granted for the number of shares exchanged for payment of the shares of common stock issued upon exercise of the non-qualified option, including shares surrendered for payment of any federal and state income tax withholdings. Restoration options (i) are non-qualified stock options, (ii) have an exercise price equal to the market price of the Company's Class A common stock on the grant date, (iii) are exercisable six months from the grant date, (iv) have the same expiration date as the original non-qualified option exercised in the SORP Transaction, not to exceed a maximum term of 10 years and two days from the grant date, and (v) may contain the same restoration feature as described above. These options were granted subsequent to the Company's April 2005 acceleration of all then outstanding unvested options and were not otherwise affected by such acceleration.

(2) Pursuant to the SORP, the Company issued an aggregate of 275,588 stock options to eight participants in 2005. The number of stock options issued under the SORP, as well as the number of its participants have significantly decreased due to the majority of option holders waiving their rights to receive stock options under the SORP in connection with their participation in the 2003 Exchange Offer. Mr. Tucker was not eligible to participate in the 2003 Exchange Offer, and consequently, he remained the only senior executive officer of the Company eligible to participate in the SORP. Pursuant to the terms of his Consulting Agreement, Mr. Tucker is not eligible to participate in the SORP after 2005.

(3) All options were valued using the Black-Scholes option pricing model, resulting in a weighted average valuation of \$3.01 per option. Assumptions used to determine that value included volatility of 27.1%, a risk free rate of return of 4.03%, an annual dividend yield of 3.1%, and a life of 2.25 years. No adjustments are made for non-transferability or risk of forfeiture.

*Aggregate Option Exercises in Last Fiscal Year and Fiscal Year-end Option Values Table*

The following table sets forth information for each of the Named Executive Officers with respect to Class A common stock acquired on exercise of stock options during 2005, any value realized therein, the number of unexercised options at the end of 2005 (exercisable and unexercisable) and the value of Class A stock options held at the end of 2005. The Value Realized column reflects the difference between the market price on the date of exercise and the market price on the date of grant (the exercise price for the option) for all options exercised, even though the executive may have actually received fewer shares as a result of the surrender of shares to pay the exercise price, or the withholding of shares to cover the tax liability associated with the option exercise. Accordingly, the Value Realized numbers do not necessarily reflect what the executive might receive, should he choose to sell the shares acquired by the option exercise, since the market price of the shares so acquired may at any time be higher or lower than the price on the exercise date of the option.

Name	Number of Securities Underlying Options Exercised(1)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at Fiscal Year End (#)		Value of Unexercised In-The-Money Options at Fiscal Year End \$(3)	
			Exercisable	Unexercisable(2)	Exercisable	Unexercisable(2)
Keith A. Tucker	366,899	\$ 2,523,151	2,129,987	271,194	\$ 212,117	\$ 428,487
Henry J. Herrmann			701,781	0	3,066,958	0
Michael L. Avery			35,000	0	144,784	0
Thomas W. Butch			14,785	0	55,578	0
John E. Sundeen, Jr.			129,050	0	665,748	0
Michael D. Strohm			83,631	0	361,357	0

(1) This column reflects the number of shares underlying options exercised pursuant to the Company's SORP in 2005. Pursuant to the terms of the SORP, the actual number of shares received by Mr. Tucker after taking into account the shares surrendered to cover the exercise price and tax liability, if any, was 95,705. Pursuant to the terms of the 2003 Exchange Offer, Messrs. Herrmann, Avery, Butch, Sundeen and Strohm waived their rights to participate in the SORP. Mr. Tucker was not eligible to participate in the 2003 Exchange Offer, and consequently, remained the only senior executive officer of the Company eligible to participate in the SORP. Pursuant to the terms of his Consulting Agreement, Mr. Tucker is not eligible to participate in the SORP after 2005.

(2) As previously discussed, on April 25, 2005, the Compensation Committee approved the accelerated vesting of all then outstanding unvested options granted to employees, financial advisors, officers and directors under the Stock Incentive Plan, the ESA Plan and the NED Plan. This resulted in the acceleration of 624,267 options, 447,497 of which were held by the Company's executive officers and directors (and which represent all of the options held by such persons). At the time the options were accelerated, the Compensation Committee imposed restrictions on options held by such persons that prevent the sale of any shares of the Company's Class A common stock acquired upon exercise of an accelerated option until such time as the option would have originally vested and been exercisable, other than dispositions of stock in payment for the exercise price of the options and associated taxes, if any. Mr. Tucker's unexercisable options were granted August 1, 2005, subsequent to the April 2005 acceleration, and were not otherwise affected by such acceleration.

(3) The value of unexercised in-the-money options equals the difference between the closing price of the Class A common stock at fiscal year end and the option's exercise price, multiplied by the number of shares underlying the options. The closing price of the Class A common stock on December 31, 2005 was \$20.97.

**Equity Compensation Plan Information**

The Equity Compensation Plan table provides information as of December 31, 2005 with respect to shares of the Company's Class A common stock that may be issued under our existing equity compensation plans, including the Stock Incentive Plan, the ESA Plan and the NED Plan.

<b>Plan Category</b>	<b>Number of Securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))(1)</b>
Equity compensation plans approved by security holders	7,115,837	\$ 22.38	16,067,869
Equity compensation plans not approved by security holders			
<b>Total</b>	<b>7,115,837</b>	<b>\$ 22.38</b>	<b>16,067,869</b>

(1) Includes 12,903,456, 2,391,169 and 773,244 shares that may be issued in the form of restricted stock or stock options under the Stock Incentive Plan, the ESA Plan and the NED Plan, respectively.

*Pension Programs*

The Company sponsors the Waddell & Reed Financial, Inc. Retirement Income Plan (the **Pension Plan**), a non-contributory pension plan, and 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 of 1986, as amended (the **Code**).

*Pension Plan*

The following table shows the estimated annual retirement benefits that would be payable to participants in 2005 with varying salary ranges and years of service. The benefits shown are offset for social security deductions and calculated on the basis of annual payments for the life of a participant who is 65 years of age.

**Waddell & Reed Financial, Inc. Retirement Income Plan\***

Remuneration	Years of Credited Service				
	15	20	25	30	35
200,000	\$ 54,887	\$ 73,183	\$ 91,478	\$ 109,774	\$ 118,069
250,000	\$ 57,877	\$ 77,183	\$ 96,478	\$ 115,774	\$ 124,569
300,000	\$ 57,877	\$ 77,183	\$ 96,478	\$ 115,774	\$ 124,569
350,000	\$ 57,877	\$ 77,183	\$ 96,478	\$ 115,774	\$ 124,569
400,000	\$ 57,877	\$ 77,183	\$ 96,478	\$ 115,774	\$ 124,569
500,000	\$ 57,877	\$ 77,183	\$ 96,478	\$ 115,774	\$ 124,569

\* The remuneration specified in the table consists of base salary to the extent of \$210,000 (as adjusted from time to time by the U.S. Internal Revenue Service). Earnings that can be taken into account under a tax-qualified defined benefit plan were limited by law in 2005 to \$210,000 per year.

The Pension Plan is a tax-qualified, non-contributory pension plan that covers all eligible employees of the Company who are 21 years of age or older and have one or more years of credited service. Benefits under the plan are determined by multiplying the participant's highest average earnings in any five consecutive years during the last 10 years of service before retirement by a percentage equal to 2% for each year of credited service up to 30 years and by 1% for each additional year of service in excess of 30 years, for a maximum of 10 years, and then reducing that result by a social security offset. For purposes of the Pension Plan, earnings include the amount shown in the **Salary** column of the Summary Compensation Table, but not bonuses, commissions (other than for Regional Vice Presidents and Division/District Managers), directors' fees, expense reimbursements, employer contributions to retirement plans or deferred compensation, and may not exceed \$210,000 per year (as adjusted for inflation) pursuant to limitations under the Code. Because of the limitation, the compensation used to determine benefits payable under the Pension Plan for each of the Named Executive Officers is \$210,000. Benefits under the Pension Plan vest 100% after five years. Upon the participant's retirement, benefits under the Pension Plan are payable as an annuity or in a lump sum. Messrs. Herrmann, Tucker, Avery, Butch, Sundeen and Strohm are credited with 32, 14, 24, 6, 20 and 29 years of service, respectively, under the Pension Plan. Upon his resignation as Chief Executive Officer on May 25, 2005, Mr. Tucker elected to take a lump sum distribution of his pension benefits, rather than annual payments over his lifetime, which resulted in a distribution in the amount of \$462,280.

*SERP*

The SERP was adopted to supplement the annual pension paid to certain senior executive officers under the Pension Plan. For 2005, Messrs. Herrmann and Tucker were the only eligible participants of the SERP. Upon his resignation on May 25, 2005, Mr. Tucker was no longer eligible to participate in SERP. Each calendar year, the Compensation Committee credits participants' SERP accounts with (1) an amount equal to 4% of his or her base salary, less the amount of the maximum annual employer matching contribution that could be made on the participant's behalf under the Company's 401(k) plan, and (2) a non-formula award, 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. In 2005, Mr. Tucker received a pre-tax distribution of \$2,595,240, which represented the amount of his benefits accumulated as of the date of his resignation. As of December 31, 2005, Mr. Herrmann had \$3,037,932 accrued in his SERP account, including a \$300,000 Company contribution for 2005. Mr. Tucker did not receive a Company contribution in 2005.

**Performance Graph**

*Notwithstanding anything to the contrary set forth in any of the Company's previous filings under the Securities Act of 1933, as amended (the Securities Act), or the Securities Exchange Act of 1934, as amended (the Exchange Act), that might incorporate future filings, including this Proxy Statement, in whole or in part, this section entitled Performance Graph shall not be incorporated by reference into any future filings, and shall not be deemed soliciting material or filed under the Securities Act or the Exchange Act.*

The following graph compares the cumulative total stockholder return on the Company's Class A common stock from December 31, 2000 through December 31, 2005, 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-two 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, 2000, with all dividends being reinvested. The closing price of the Company's Class A common stock on December 29, 2000 (the last trading day of the year) was \$37.63 per share. The stock price performance on the graph is not necessarily indicative of future price performance.

**Comparison of Cumulative Total Return for the Period Ended December 31, 2005\***  
**Waddell & Reed Financial, Inc.**

Index	Period Ending					
	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05
Waddell & Reed Financial, Inc.	100.00	86.59	54.09	66.11	69.08	62.49
S&P 500	100.00	88.11	68.64	88.33	97.94	102.74
SNL Asset Manager Index	100.00	89.54	67.91	94.69	123.54	157.12

\* Cumulative Total Return assumes an initial investment of \$100 on December 31, 2000, with the reinvestment of all dividends through December 31, 2005.

**Security Ownership of Management**

The following table sets forth information regarding beneficial ownership of the Company's Class A common stock by each of its current directors (including all nominees for director), the Named Executive Officers and all other executive officers, and by all such persons as a group, as of February 23, 2006. Unless otherwise indicated in the footnotes below, beneficially owned means the sole power to vote or direct the voting of a security and the sole power to dispose or direct the disposition of a security.

<b>Name of Beneficial Owner</b>	<b>Number of Shares Beneficially Owned Directly(1)(3)</b>	<b>Number of Shares Beneficially Owned Indirectly(2)(4)</b>	<b>Percent of Class</b>
Michael L. Avery	107,107	0	*
Brent K. Bloss	5,890	0	*
Thomas W. Butch	98,964	18,412	*
Daniel P. Connealy	19,512	0	*
Henry J. Herrmann	0	1,731,141	2.1 %
Alan W. Kosloff	27,824	0	*
Dennis E. Logue	27,127	150	*
James M. Raines	56,491	0	*
Ronald C. Reimer	33,042	5,942	*
William L. Rogers	89,681	0	*
Mark A. Schieber	9,805	0	*
Daniel C. Schulte	80,199	7,759	*
Michael D. Strohm	193,860	0	*
John E. Sundeen, Jr.	271,423	0	*
Keith A. Tucker	0	4,598,269	5.5 %
Jerry W. Walton	33,564	0	*
All Directors, Nominees and Executive Officers as a group (16 persons)	1,054,489	6,361,673	8.8 %

\* Denotes less than 1%.

(1) Includes shares that are subject to presently exercisable Class A stock options and options exercisable within 60 days as follows: for Michael L. Avery, 35,000 shares; for Brent K. Bloss, 0 shares; for Thomas W. Butch, 14,785 shares; for Daniel P. Connealy, 0 shares; for Alan W. Kosloff, 0 shares; for Dennis E. Logue, 0 shares; for James M. Raines, 33,362 shares; for Ronald C. Reimer, 11,371 shares; for William L. Rogers, 51,467 shares; for Mark A. Schieber, 1,492 shares; for Daniel C. Schulte, 1,000 shares; for Michael D. Strohm, 83,631 shares; for John E. Sundeen, Jr., 129,050 shares; for Jerry W. Walton, 0 shares; and for all directors, executive officers and nominees as a group, 3,464,120 shares.

(2) Indirect beneficial ownership includes shares owned by the director or executive officer (i) as beneficiary or trustee of a personal trust, (ii) by a limited liability company, family limited partnership or family charitable foundation, (iii) by a spouse or as trustee or beneficiary of a spouse's trust, or (iv) in a retirement account. Indirect beneficial ownership excludes all shares of the unitized stock fund held in the Company 401(k) and Thrift Plan accounts of Messrs. Butch, Schieber, Strohm and Tucker.

(3) Includes unvested shares of restricted Class A common stock granted under the Stock Incentive Plan for Messrs. Avery, Bloss, Butch, Connealy, Kosloff, Logue, Raines, Reimer, Rogers, Schieber, Schulte, Strohm, Sundeen and Walton of 55,000, 5,333, 69,258, 18,512, 18,224, 15,074, 8,395, 14,349, 15,244, 6,166, 68,636, 61,504, 61,505 and 13,479 shares, respectively. Additionally, includes for Messrs. Avery, Butch, Logue, Raines, Reimer, Rogers, Schieber, Schulte, Strohm, Sundeen and Walton 12,696, 9,695, 1,936, 3,086, 2,212, 2,344, 661, 5,598, 10,914, 15,534 and 6,961 shares,





respectively, issued in the 2003 Exchange Offer (which were fully vested at grant) that remain subject to transfer restrictions.

(4) For Messrs. Herrmann and Tucker, indirect beneficial ownership includes 701,781 and 2,401,181 shares, respectively, owned by personal trusts that are subject to presently exercisable Class A stock options and options exercisable within 60 days, and 175,478 and 198,189 shares, respectively, of unvested restricted stock owned by a personal trust or held by a family limited partnership. Additionally, Mr. Herrmann's shares include 74,884 shares issued in the 2003 Exchange Offer (which were fully vested at grant) that remain subject to transfer restrictions.

## OTHER MATTERS

### Independent Auditors Services and Fees

The Board, on the unanimous recommendation of the Audit Committee, has selected KPMG LLP to audit the books, records and accounts of the Company and its subsidiaries for the 2006 fiscal year. KPMG LLP has served as the Company's independent auditors since its appointment in 1981. Representatives of KPMG LLP are expected to be present at the annual meeting to respond to appropriate questions and will have the opportunity to make a statement if the representatives desire to do so.

The Audit Committee or its Chairman pre-approves the audit and non-audit services to be rendered to the Company, as well as the fees associated with such services. Generally, management will submit to the Audit Committee a detailed list of services that it recommends the Audit Committee engage the independent auditors to provide for the fiscal year. The Audit Committee pre-approves certain audit and non-audit services and establishes a dollar limit on the amount of fees the Company will pay for each category of services. The Audit Committee is informed from time to time of the non-audit services actually provided pursuant to the pre-approval process. During the year, the Audit Committee periodically reviews the types of services and dollar amounts approved and adjusts such amounts, as it deems appropriate. Unless a service to be provided by the independent auditors has received general pre-approval, it will require specific pre-approval by the Audit Committee. The Audit Committee also periodically reviews all non-audit services to ensure such services do not impair the independence of the Company's independent auditors. The Audit Committee approved all services provided by KPMG LLP for the 2004 and 2005 fiscal years. These services included the audit of the Company's annual financial statements, review of the Company's quarterly financial statements, tax consultation services, preparation of corporate tax returns, auditing of employee benefits plans, corporate financial planning services and certain agreed upon procedural audits. See Report of Audit Committee for a discussion of auditor independence.

#### *Audit Fees*

The aggregate fees billed by KPMG LLP for the audit of the Company's annual financial statements and review of the financial statements included in the Company's Quarterly Reports on Form 10-Q for fiscal years 2004 and 2005 were \$606,736 and \$516,500, respectively.

#### *Audit-Related Fees*

The aggregate fees billed by KPMG LLP for assurance and other services related to the performance of the audit or review of the Company's financial statements, and not reported above under Audit Fees, for fiscal years 2004 and 2005 were \$103,205 and \$102,727, respectively. These fees primarily relate to financial statement audits of employee benefit plans, certain agreed upon procedures and general accounting consultation and research.

#### *Tax Fees*

The aggregate fees billed by KPMG LLP for income tax consultation, including tax compliance, tax advice and tax planning for fiscal years 2004 and 2005 were \$461,257 and 183,463, respectively. These fees primarily relate to corporate financial planning, preparation and review of corporate tax returns, and other general tax consultation. Total tax fees for 2004 also included fees for executive financial planning services; however, as of January 1, 2005, KPMG LLP no longer provides executive financial planning to the Company's executives.

*All Other Fees*

KPMG LLP did not bill the Company for any other services during fiscal years 2004 and 2005.

The Audit Committee has considered whether the non-audit services provided by KPMG LLP, including the services rendered in connection with income tax consultation, were compatible with maintaining KPMG LLP's independence and has determined that the nature and substance of the limited non-audit services did not impair the status of KPMG LLP as the Company's independent auditors.

***Other Business Presented at Annual Meeting***

As of the date of this Proxy Statement, the Board knows of no other business that may properly be, or is likely to be, brought before the annual meeting. If any other matters should arise at the annual meeting, shares represented by proxies will be voted at the discretion of the proxy holders.

***Stockholder Proposals for the 2007 Annual Meeting***

In order for a stockholder proposal to be eligible to be included in the Company's proxy statement and proxy form for the 2007 Annual Meeting of Stockholders, the proposal (1) must be received by the Company at its executive offices, 6300 Lamar Avenue, Overland Park, Kansas 66202, Attn: Corporate Secretary, on or before November 8, 2006, and (2) must concern a matter that may be properly considered and acted upon at the annual meeting in accordance with applicable laws, regulations and the Company's Bylaws and policies, and must otherwise comply with Rule 14a-8 of the Exchange Act.

***Householding of Proxy Materials***

In an effort to reduce printing costs and postage fees, the Company has adopted a practice approved by the SEC called "householding." Under this practice, certain stockholders who have the same address and last name will receive only one copy of this Proxy Statement and the Company's annual report, unless one or more of these stockholders notifies the Company that he or she wishes to continue receiving individual copies. Stockholders who participate in householding will continue to receive separate proxy cards.

If you share an address with another stockholder and received only one copy of this Proxy Statement and the Company's annual report, and would like to request a separate copy of these materials, or you do not wish to participate in householding in the future, please (1) mail such request to Waddell & Reed Financial, Inc. Attn: Investor Relations Department, 6300 Lamar Avenue, Overland Park, Kansas 66202, or (2) contact our Investor Relations Department toll-free at (800) 532-2757. Similarly, you may also contact the Company if you received multiple copies of the Company's proxy materials and would prefer to receive a single copy in the future.

***Where You Can Find More Information***

The Company files reports, proxy statements and other information with the SEC. You can read and copy these reports, proxy statements and other information concerning the Company at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at (800) SEC-0330 for further information on the public reference room. The SEC maintains an Internet site at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including the Company. The Company's Class A common stock is quoted on the NYSE. These reports, proxy statements and other information are also available for inspection at the offices of the NYSE, 20 Broad Street, New York, New York 10005.

## Edgar Filing: WADDELL & REED FINANCIAL INC - Form DEF 14A

In addition, the Company's Annual Report on Form 10-K (without exhibits) is available via the Internet at the Company's website ([www.waddell.com](http://www.waddell.com)). If you would like to request documents from the Company, please do so by March 29, 2006 to receive them before the annual meeting.

You may request a copy of the Company's filings (other than exhibits which are not specifically incorporated by reference therein) at no cost by writing or telephoning us at the following address:

Waddell & Reed Financial, Inc.  
Attn: Investor Relations Department  
6300 Lamar Avenue  
Overland Park, Kansas 66202  
(800) 532-2757

You should rely only on the information contained in this Proxy Statement to vote on the election of directors. The Company has not authorized anyone else to provide you with different information. You should not assume that the information in this Proxy Statement is accurate as of any date other than March 8, 2006.

By Order of the Board of Directors

Wendy J. Hills  
*Vice President, Secretary & Associate General Counsel*

## Appendix A

### **WADDELL & REED FINANCIAL, INC. AUDIT COMMITTEE CHARTER, AS AMENDED AND RESTATED ADOPTED APRIL 26, 2000**

**As Amended February 22, 2006**

#### **I. COMMITTEE PURPOSE AND ROLE**

The Audit Committee (the "Committee") is appointed by the Board of Directors (the "Board") of Waddell & Reed Financial, Inc. (the "Company") and assists the Board in fulfilling its oversight responsibility relating to: (1) the integrity of the financial reporting process, systems of internal controls, and the financial statements and reports of the Company, (2) the performance of the Company's internal audit function, (3) the independent auditor's qualifications, independence, and performance, and (4) the Company's compliance with legal and regulatory requirements. The Committee is directly responsible for the appointment, compensation, retention, and oversight of the Company's independent auditors (the "Outside Auditors") for the purposes of preparing or issuing an audit report or performing other audit, review, attest or related services for the Company, and preparing the audit committee report required by the rules of the Securities and Exchange Commission (the "Commission") to be included in the Company's annual proxy statement.

All of the requirements of this Audit Committee Charter (the "Charter") are qualified by the understanding that the role of the Committee is to act in an oversight capacity and is not to imply or require a detailed review of the work performed by the Outside Auditors or the Company's management unless specific circumstances are brought to its attention warranting such a review. The Committee should expect that (1) management of the Company and the Outside Auditors have the responsibility to plan and conduct financial audits and to determine that the Company's financial statements and disclosures are complete, accurate and in accordance with generally accepted accounting principles ("GAAP") and applicable rules and regulations, and (2) management of the Company has the responsibility to ensure the Company's compliance with applicable legal and regulatory requirements.

#### **II. COMMITTEE MEMBERSHIP**

The Committee shall be comprised of not less than three nor more than eight directors as determined from time to time by the Board after considering the recommendation of the Company's Nominating and Corporate Governance Committee. The members of the Committee shall serve until their successors are duly elected and qualified or until their earlier resignation or removal.

The Board must determine that each of the members of the Committee meet the independence requirements of the New York Stock Exchange (the "NYSE") (or any other exchange on which the Company's capital stock is then traded), the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including Section 10A(m)(3) thereof, and the rules and regulations of the Commission. The Board must determine that each member of the Committee is financially literate, or receive assurances that the member will become financially literate within a reasonable period of time after his or her appointment to the Committee. In addition, the Board must determine whether at least one member of the Committee has the attributes of an audit committee financial expert, as defined by the Commission. If required by the NYSE or the rules and regulations of the Commission, the Company shall include appropriate disclosures in its periodic reports filed pursuant to Sections 13(a) and 15(d) of the Exchange Act regarding the independence and financial expertise of its Committee members. Committee members shall not simultaneously serve on the audit committee of more than two other public companies without the approval of the full Board.

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### III. COMMITTEE MEETINGS

The Committee shall meet at least quarterly, or more frequently as circumstances dictate. The Committee may request any officer, employee, advisor, or independent auditor of the Company to attend a meeting of the Committee. The Committee may also, to the extent it deems necessary or appropriate, meet with the Company's investment bankers or financial analysts who follow the Company. The Committee shall make regular reports to the Board in connection with its reviews and investigations.

The Committee shall meet (1) with management and the Outside Auditors in separate executive sessions at least semi-annually, including in advance of the filing of each Form 10-K, or more often in the discretion of the Committee, (2) with management and the Outside Auditors in advance of the filing of each Form 10-Q, and (3) with the internal auditors of the Company (the Internal Auditors) in executive session at least semi-annually, or more often in the discretion of the Committee, to discuss matters for which the Committee has responsibility.

The full Board shall elect a chairman of the Committee. If a chairman is not elected by the Board or is not present at a particular meeting, the members of the Committee may designate a chairman by majority vote of the Committee membership in attendance. The chairman (or acting chair) shall preside at each Committee meeting. The chairman (or acting chair) may direct appropriate members of management and staff to prepare draft agendas and related background information for each Committee meeting. Any background materials, together with the agenda, should be distributed to the Committee members in advance of the meeting. All meetings of the Committee shall be held pursuant to the Bylaws of the Company with regard to notice and waiver thereof, and written minutes of each meeting shall be duly filed in the Company records.

### IV. COMMITTEE AUTHORITY AND RESPONSIBILITIES

In performing its functions, the Committee shall undertake those tasks and responsibilities that, in its judgment, would most effectively contribute to, and implement, the purposes of the Committee. The following are specific functions of the Committee:

#### Financial Statements and Disclosure Matters

1. Review and discuss the annual and quarterly financial statements, including disclosures made in Management's Discussion and Analysis of Financial Condition and Results of Operations, with management and the Outside Auditors, and in the discretion of the Committee, the Internal Auditors, prior to the annual and quarterly financial statements being filed in the Company's Form 10-K and Form 10-Q, as applicable. In connection with these reviews, the Committee must:

(a) Review and discuss with the Outside Auditors (i) all critical accounting policies and practices to be used, (ii) all alternative treatments of financial information within GAAP that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the Outside Auditors, (iii) the internal controls adhered to by the Company, management and the financial, accounting and internal auditing personnel of the Company and the impact of each on the quality and reliability of the Company's financial reporting, and (iv) other material written communications between the Outside Auditors and management, such as any management letter or schedule of unadjusted differences.

(b) Review and discuss with management and the Outside Auditors, and in the discretion of the Committee, the Internal Auditors, (i) significant accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles, (ii) significant financial reporting issues and judgments

made in connection with the preparation of the Company's financial statements, including the effect of alternative GAAP methods on the financial statements, (iii) the development, selection and disclosure of critical accounting estimates and the analyses of alternative assumptions or estimates, and the effect of such estimates on the Company's financial statements, (iv) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company, (v) any pro forma or adjusted non-GAAP information contained in the Company's periodic reports, (vi) the effect of significant litigation, contingencies and claims against the Company on the Company's financial statements, and (vii) audit problems or difficulties and management's response thereto.

2. Discuss with management the Company's earnings press releases, including the use, if any, of pro forma or adjusted non-GAAP information, as well as financial information and earnings guidance provided to analysts and rating agencies, if any. Such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made).

3. Discuss with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies.

4. Discuss with the Outside Auditors the matters required to be discussed by Statement on Auditing Standards No. 61 including (i) the Outside Auditors' responsibility under generally accepted auditing standards (GAAS), (ii) the Company's significant accounting policies, (iii) accounting estimates, assumptions and judgments used in preparing the Company's financial statements, (iv) significant audit adjustments discovered, and (v) disagreements with management encountered in the course of the audit.

#### **Oversight of the Company's Internal Audit Department and Legal Compliance**

5. Review the budget, plan, activities, organizational structure, and qualifications of the internal audit department.

6. Review the appointment, performance and replacement of the internal audit director.

7. Communicate with management, the Outside Auditors and the Internal Auditors to obtain information concerning (a) the internal audits performed during the year and the results thereof, (b) the Company's significant accounting principles, financial reporting policies and internal controls of the Company and any changes therein, (c) any deficiencies in the Company's internal controls and any special audit steps adopted in light of material control deficiencies, and (d) the competency of the Company's financial, accounting and internal auditing personnel.

8. Review significant reports prepared by the internal audit department together with management's response thereto.

9. Evaluate the internal auditing department and its impact on the financial reporting process, systems of internal controls and financial statements and reports of the Company.

10. Review with the Company's legal counsel, at least annually, any (a) legal matters that could have a material impact on the Company's financial statements or compliance with applicable laws or internal governance policies, and (b) correspondence between the Company and regulators or governmental agencies and any employee complaints raising material issues with respect to the Company's financial reporting process, internal controls, or financial statements.

11. Obtain reports from management and the Company's internal audit director concerning the Company's compliance with applicable legal and regulatory requirements, if any.





**Oversight of the Outside Auditors**

12. Appoint, terminate and compensate the Outside Auditors. The Committee is also responsible for approving, evaluating, retaining, and overseeing the work of the Outside Auditors (including the Audit Plan) and resolving any disagreements between management and the Outside Auditors regarding the Company's financial reporting process, internal controls and financial statements. The Outside Auditors shall report directly to the Committee.
13. Pre-approve all audit, review or attest services and permitted non-audit services (including the terms and fees thereof) to be performed for the Company or its subsidiaries by the Outside Auditors, subject to the de minimis exceptions for permitted non-audit services described in Section 10A(i)(1)(B) of the Exchange Act, and establish policies and procedures for engaging the Outside Auditors to perform services other than audit, review and attest services.
14. Review the experience, qualifications and performance of the Outside Auditors' team, including the lead audit partner and other senior members of the team.
15. Obtain and review a report from the Outside Auditors at least annually regarding (a) the auditor's internal quality-control procedures, (b) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues, and (c) all relationships between the Outside Auditors and the Company, including the written disclosures and the letter required by Independence Standards Board Standard 1, as it may be amended from time to time, and any successor to such standard. The Committee shall evaluate the qualifications, performance and independence of the Outside Auditors, including considering whether the auditors' quality controls are adequate and the provision of permitted non-audit services is compatible with maintaining the auditors' independence. In making this evaluation, the Committee should take into account the opinions of management and the Internal Auditors. The Committee shall present its conclusions to the Board.
16. Oversee the rotation of the lead audit partner, the concurring review partner, the client service partner and other line partners directly involved in the performance of the audit, review or attest services of the Company as required by applicable law. The Committee may require the Outside Auditors to stagger the rotation of these partners to ensure that the engagement team continues to have appropriate expertise to allow the audit engagement to be conducted in accordance with GAAS.
17. Recommend and oversee the Company's policies for hiring employees or former employees of the Outside Auditors who have participated in any capacity in an audit of the Company.
18. Discuss, if necessary or appropriate, with the national office of the Outside Auditors issues on which the Company's audit team consulted them and matters of audit quality and consistency.
19. Discuss with management and the Outside Auditors, and in the discretion of the Committee, the Internal Auditors, any accounting adjustments that were noted or proposed by the Outside Auditors, but were passed (as immaterial or otherwise).
20. Discuss with the Outside Auditors any difficulties the Outside Auditors encountered in the course of the audit work, including any restrictions on the scope of the Outside Auditors' activities or on access to requested information, and any significant disagreements with management.

21. Discuss with the Outside Auditors any management or internal control letters issued, or proposed to be issued, to the Company by the Outside Auditors.

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22. Discuss with the Outside Auditors the responsibilities, budget and staffing of the Company's internal audit function.
23. Obtain from the Outside Auditors the information required to be disclosed to the Company by GAAS in connection with the conduct of an audit.
24. Obtain from the Outside Auditors the reports required to be furnished to the Committee under Section 10A of the Exchange Act and any information with respect to illegal acts in accordance with Section 10A.
25. Require the Outside Auditors to review the financial information included in the Company's Form 10-Q in accordance with Rule 10-01(d) of Regulation S-X prior to the Company filing such reports with the Commission. If the Company states in its Form 10-Q that the interim financial statements have been reviewed by the Outside Auditors, the Committee must obtain the Outside Auditors' report as required by Rule 10-01(d).

**Other Committee Responsibilities and Clarification of Role**

26. Oversee the integrity of the audit process, financial reporting process, internal accounting controls and financial statements of the Company, and the work of management, the Internal Auditors and the Outside Auditors in these areas, as applicable. The Committee shall provide an open avenue of communication between management, the Internal Auditors, the Outside Auditors and the Board.
27. The Committee may form and delegate authority to subcommittees consisting of one or more members when appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services, provided that the decision of such subcommittee to grant pre-approvals shall be presented to the full Committee at its next scheduled meeting.
28. Annually prepare the Committee report to stockholders as required by the Exchange Act. This report shall be included in the Company's annual proxy statement.
29. Establish procedures for (a) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, and (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
30. Review management's report regarding the internal controls and procedures for financial reporting of the Company as required by the rules and regulations of the Commission.
31. Perform any other activities consistent with this Charter, the Company's Bylaws, and governing laws and regulations as the Committee or the Board deems necessary or appropriate.
32. Review with the Board any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the Outside Auditors, and the performance of the Company's internal audit department.
33. Nothing in this Charter will, or will be deemed to, decrease or modify in any manner adverse to any member of the Committee, such member's right to rely on statements and certifications made by the Company's officers, employees, agents, counsel, experts and auditors.
34. Nothing in this Charter will, or will be deemed to, adversely affect in any manner the rights of members of the Committee to indemnification and advancement of expenses under the Certificate of Incorporation or Bylaws of the

Company or under any contract, agreement, arrangement or understanding benefiting such member.

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35. Notwithstanding any other provision of this Charter, no provision of this Charter will, except to the extent required by applicable law, rule or regulation, be construed to create any duty or obligation on the part of the Committee or any of its members or to increase their liability.

#### **V. PERFORMANCE EVALUATION**

The Committee must annually conduct a self-evaluation of its performance and, from time to time, evaluate whether this Charter appropriately addresses the matters that are or should be within its scope.

In conducting its self-evaluation, the Committee may address all matters that it considers relevant to its performance, including, but not limited to, the following:

1. The adequacy, appropriateness and quality of the information and recommendations presented by management to the Committee, and by the Committee to the Board.
2. The manner in which such information and recommendations were discussed or debated.
3. Whether the number and length of meetings of the Committee were adequate for the Committee to complete its work in a thorough and thoughtful manner.

The Committee shall report to the Board the results of any self-evaluation, including any recommended amendments to this Charter.

#### **VI. INVESTIGATIONS AND STUDIES; OUTSIDE ADVISORS**

The Committee has the power and authority to conduct any investigation it deems appropriate in fulfilling its responsibilities, and has direct access to the Outside Auditors and the Internal Auditors, as well as anyone else in the Company. The Committee may retain, at the Company's expense and without separate Board approval, outside legal, accounting or other advisors it deems necessary in the performance of its duties.

The Company shall provide for appropriate funding, as determined by the Committee, for payment of (1) compensation to the Outside Auditors for the purpose of rendering or issuing an audit report or related work or performing other audit, review, or attest services for the Company, (2) compensation to any advisors employed by the Committee, and (3) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

**PROXY - WADDELL & REED FINANCIAL, INC.**

**ANNUAL MEETING OF STOCKHOLDERS**

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

The undersigned hereby appoints Henry J. Herrmann and Alan W. Kosloff, jointly and severally with full power of substitution, to represent and vote, as represented on the reverse side, all shares of Company Class A common stock which the undersigned holds of record and is entitled to vote at the Annual Meeting of Stockholders to be held at the executive offices of the Company, 6300 Lamar Avenue, Overland Park, Kansas 66202 on the 12<sup>th</sup> day of April, 2006 at 10:00 a.m. (CST), or any adjournment thereof. All shares votable by the undersigned, including shares held of record by agents or trustees for the undersigned as a participant in the Waddell & Reed Financial, Inc. 401(k) and Thrift Plan, the Torchmark Corporation Savings and Investment Plan, the Liberty National Life Insurance Company 401(k) Plan and the Profit Sharing and Retirement Plan of Liberty National Life Insurance Company, will be voted in the same manner specified and in the discretion of the persons named above, or such agents or trustees, on such other matters as may properly come before the meeting.

**YOU ARE ENCOURAGED TO SPECIFY YOUR CHOICES BY MARKING THE APPROPRIATE BOXES (SEE REVERSE SIDE) BUT YOU NEED NOT MARK ANY BOXES IF YOU WISH TO VOTE IN ACCORDANCE WITH THE BOARD OF DIRECTORS RECOMMENDATIONS. THE PROXIES CANNOT VOTE YOUR SHARES UNLESS YOU SIGN AND RETURN THIS CARD.**

**WADDELL & REED FINANCIAL, INC.**

Dear Stockholder:

If voting by proxy, we encourage you to vote your shares electronically this year either by telephone or via the Internet. This will eliminate the need to return your proxy card. Your telephone or Internet vote authorizes the named proxies to vote your shares in the same manner as if you had marked, signed and returned your proxy card. When voting your shares electronically by telephone or via the Internet, you will need your proxy card and Social Security Number (where applicable). The Computershare Vote by Telephone and Vote by Internet systems are maintained by our transfer agent, Computershare Trust Company, N.A. ( Computershare ) and can be accessed 24 hours a day, seven days a week up until the day prior to the annual meeting; votes may be cast by Internet up until 11:59 p.m. on the day before the annual meeting.

**Direct Deposit of Dividends**

We encourage all stockholders who receive their dividends in cash to participate in direct deposit. To enroll in this service, please mail your request along with a copy of your voided check, to Computershare at the address noted below.

**Transfer Agent Contact Information**



Edgar Filing: WADDELL & REED FINANCIAL INC - Form DEF 14A

Computershare Trust Company, N.A.  
P.O. Box 43069  
Providence RI 02940-3069

Telephone Inside the USA:	(877) 498-8861
Telephone Outside the USA:	(781) 575-2723
TDD/TTY for Hearing Impaired:	(800) 952-9245

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**Telephone and Internet Voting Instructions**

You can vote by telephone OR Internet! Available 24 hours a day 7 days a week!

Instead of mailing your proxy, you may choose one of the two voting methods outlined below to vote your proxy.

To vote by the Telephone (within U.S. and Canada)

- Call toll free 1-800-652-VOTE (8683) in the United States or Canada any time on a touch tone telephone.

There is NO CHARGE to you for the call.

- Follow the simple instructions provided by the recorded message.

To vote using the Internet

- Go to the following website: [www.computershare.com/expressvote](http://www.computershare.com/expressvote)

- Enter the information requested on your computer screen and follow the simple instructions.

If you vote by telephone or the Internet, please DO NOT mail back this proxy card. Proxies submitted by telephone or the Internet must be received by 11:59 p.m., Central Time, on April 11, 2006.

**THANK YOU FOR VOTING**

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<b>Stockholder Name and Address prints here</b>	
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[ ] Mark this box with an X if you have made changes to your name or address details above

FOLD AND DETACH HERE

**A. Election of Directors**

**PLEASE REFER TO THE REVERSE SIDE FOR TELEPHONE  
AND INTERNET VOTING INSTRUCTIONS**

**THIS PROXY WHEN PROPERLY SIGNED WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED STOCKHOLDER. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR PROPOSAL 1. THE PROXIES WILL USE THEIR DISCRETION WITH RESPECT TO ANY MATTER REFERRED TO IN PROPOSAL 2. THIS PROXY IS REVOCABLE AT ANY TIME BEFORE IT IS EXERCISED.**

1. The Board of Directors recommends a vote FOR the listed nominees:

FOR

WITHHELD

Please mark this box with an X if you made [ ] comments below.

01 Dennis E. Logue [ \_ ] [ \_ ]

02 Ronald C. Reimer [ \_ ] [ \_ ]

2. In their discretion, the proxies are authorized to vote upon such other business as may properly come before the meeting or any adjournments thereof.

**B. Authorized Signatures Sign Here This section must be completed for your instructions to be executed.**

**IMPORTANT** PLEASE SIGN EXACTLY AS NAME APPEARS BELOW AND RETURN PROMPTLY. When shares are held by joint tenants, both should sign. When signing as attorney, executive administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by President or other authorized officer. If a partnership, please sign in partnership name by an authorized person.

**Receipt herewith of the Company's Annual Report and Notice of Meeting and Proxy Statement, dated March 8, 2006, is hereby acknowledged.**

Signature 1 \_\_\_\_\_ Signature 2 \_\_\_\_\_ Dated \_\_\_\_ / \_\_\_\_ / \_\_\_\_

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