

WADDELL & REED FINANCIAL INC
Form 10-Q
October 27, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009

OR

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

For the transition period from to

Commission file number 001-13913

WADDELL & REED FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction
of incorporation or organization)

51-0261715
(I.R.S. Employer
Identification No.)

6300 Lamar Avenue

Overland Park, Kansas 66202

(Address, including zip code, of Registrant's principal executive offices)

(913) 236-2000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐
(Do not check if a smaller reporting company)

Smaller reporting company ☐

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

Shares outstanding of each of the registrant's classes of common stock as of the latest practicable date:

Class
Class A common stock, \$.01 par value

Outstanding as of October 23, 2009
85,336,701

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Consolidated Balance Sheets

(in thousands)

	September 30, 2009 (unaudited)	December 31, 2008
Assets:		
Cash and cash equivalents	\$ 201,301	210,328
Cash and cash equivalents - restricted	81,250	48,713
Investment securities	77,518	58,684
Receivables:		
Funds and separate accounts	33,719	33,539
Customers and other	80,032	61,280
Deferred income taxes	7,058	11,182
Prepaid expenses and other current assets	8,038	7,109
Total current assets	488,916	430,835
Property and equipment, net	59,093	59,966
Deferred sales commissions, net	59,101	52,183
Goodwill and identifiable intangible assets	221,210	221,210
Other non-current assets	14,662	11,166
Total assets	\$ 842,982	775,360
Liabilities:		
Accounts payable	\$ 21,894	40,002
Payable to investment companies for securities	125,004	67,848
Accrued compensation	33,234	24,296
Income taxes payable	3,873	2,397
Other current liabilities	71,615	70,165
Total current liabilities	255,620	204,708
Long-term debt	199,980	199,969
Accrued pension and postretirement costs	23,599	29,083
Deferred income taxes	5,075	3,564
Other non-current liabilities	13,138	17,911
Total liabilities	497,412	455,235
Commitments and contingencies (Note 12)		
Stockholders' equity :		
Preferred stock \$1.00 par value: 5,000 shares authorized; none issued		
Class A Common stock \$0.01 par value: 250,000 shares authorized; 99,701 shares issued; 85,318 shares outstanding (84,877 shares outstanding at December 31, 2008)	997	997
Additional paid-in capital	190,735	207,886
Retained earnings	510,919	487,558
Cost of 14,383 common shares in treasury (14,824 at December 31, 2008)	(338,995)	(350,463)
Accumulated other comprehensive loss	(18,086)	(25,853)
Total stockholders' equity	345,570	320,125

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Total liabilities and stockholders' equity	\$	842,982	775,360
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See accompanying notes to unaudited consolidated financial statements.

Table of Contents**WADDELL & REED FINANCIAL, INC. AND SUBSIDIARIES**

Consolidated Statements of Operations

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2009	2008	2009	2008
Revenues:				
Investment management fees	\$ 94,687	107,911	248,234	323,466
Underwriting and distribution fees	96,559	107,054	268,379	327,419
Shareholder service fees	26,730	26,259	77,663	77,191
Total	217,976	241,224	594,276	728,076
Operating expenses:				
Underwriting and distribution	115,119	125,589	324,618	382,658
Compensation and related costs (including share-based compensation of \$7,645, \$7,407, \$22,541 and \$21,998, respectively)	29,275	30,701	82,373	97,917
General and administrative	15,106	14,912	43,022	43,476
Subadvisory fees	6,129	10,866	16,317	35,737
Depreciation	3,503	3,389	10,259	9,717
Total	169,132	185,457	476,589	569,505
Operating income	48,844	55,767	117,687	158,571
Investment and other income (loss)	2,316	(530)	1,385	3,473
Interest expense	(3,153)	(2,984)	(9,452)	(8,944)
Income before provision for income taxes	48,007	52,253	109,620	153,100
Provision for income taxes	14,594	18,888	37,367	56,207
Net income	\$ 33,413	33,365	72,253	96,893
Net income per share:				
Basic	\$ 0.39	0.39	0.85	1.13
Diluted	\$ 0.39	0.39	0.84	1.12
Weighted average shares outstanding:				
Basic	85,699	85,632	85,503	86,112
Diluted	85,774	86,007	85,565	86,578
Dividends declared per common share	\$ 0.19	0.19	0.57	0.57

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**WADDELL & REED FINANCIAL, INC. AND SUBSIDIARIES**

Consolidated Statement of Stockholders' Equity

For the Nine Months Ended September 30, 2009

(Unaudited, in thousands)

	Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
Balance at December 31, 2008	99,701	\$ 997	207,886	487,558	(350,463)	(25,853)	320,125
Net income				72,253			72,253
Recognition of equity compensation			22,541				22,541
Recognition of equity compensation related to divestiture of ACF			400				400
Issuance of nonvested shares and other			(37,442)		37,442		
Dividends accrued, \$0.57 per share				(48,892)			(48,892)
Exercise of stock options			(4,234)		14,456		10,222
Excess tax benefits from share-based payment arrangements			1,584				1,584
Other stock transactions					(4,948)		(4,948)
Repurchase of common stock					(35,482)		(35,482)
Unrealized appreciation on available for sale investment securities						4,471	4,471
Reclassification for amounts included in net income						2,200	2,200
Pension and postretirement benefits						1,096	1,096
Balance at September 30, 2009	99,701	\$ 997	190,735	510,919	(338,995)	(18,086)	345,570

See accompanying notes to unaudited consolidated financial statements.

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WADDELL & REED FINANCIAL, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(Unaudited, in thousands)

	For the three months ended September 30,		For the nine months ended September 30,	
	2009	2008	2009	2008
Net income	\$ 33,413	33,365	72,253	96,893
Other comprehensive income:				
Net unrealized appreciation (depreciation) of investment securities during the period, net of income taxes of \$1,522, \$(1,767), \$2,569 and \$(2,613), respectively	2,634	(3,027)	4,471	(4,516)
Pension and postretirement benefits, net of income taxes of \$201, \$0, \$550 and \$0, respectively	347		1,096	
Reclassification adjustments for amounts included in net income, net of income taxes of \$(21), \$(33), \$1,271 and \$(67), respectively	(35)	(45)	2,200	(102)
Comprehensive income	\$ 36,359	30,293	80,020	92,275

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**WADDELL & REED FINANCIAL, INC. AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

(Unaudited, in thousands)

	For the nine months ended September 30,	
	2009	2008
Cash flows from operating activities:		
Net income	\$ 72,253	96,893
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,129	9,536
Other than temporary impairment of investments in affiliated mutual funds	3,686	
Amortization of deferred sales commissions	30,445	41,429
Share-based compensation	22,941	21,998
Excess tax benefits from share-based payment arrangements	(1,584)	(7,685)
Gain on sale of available-for-sale investment securities	(45)	
Net purchases and sales of trading securities	(119)	(27,022)
Unrealized (gain)/loss on trading securities	(3,919)	2,797
Loss on sale and retirement of property and equipment	396	120
Capital gains and dividends reinvested	(470)	(128)
Deferred income taxes	1,246	7,446
Changes in assets and liabilities:		
Cash and cash equivalents - restricted	(32,537)	32,563
Receivables from funds and separate accounts	(180)	2,545
Other receivables	(18,752)	7,353
Other assets	(3,443)	(4,405)
Deferred sales commissions	(37,363)	(63,121)
Accounts payable and payable to investment companies	39,048	(48,818)
Other liabilities	5,037	3,681
Net cash provided by operating activities	\$ 86,769	75,182
Cash flows from investing activities:		
Purchases of available-for-sale investment securities	(7,700)	(100)
Proceeds from sales of available-for-sale investment securities	44	
Proceeds from maturities of available-for-sale investment securities	340	1,750
Additions to property and equipment	(11,563)	(18,705)
Proceeds from sales of property and equipment	516	158
Net cash used in investing activities	\$ (18,363)	(16,897)
Cash flows from financing activities:		
Dividends paid	(48,809)	(47,556)
Repurchase of common stock	(35,482)	(83,941)
Exercise of stock options	10,222	8,048
Excess tax benefits from share-based payment arrangements	1,584	7,685
Other stock transactions	(4,948)	(10,911)
Net cash used in financing activities	\$ (77,433)	(126,675)
Net decrease in cash and cash equivalents	(9,027)	(68,390)
Cash and cash equivalents at beginning of period	210,328	263,914
Cash and cash equivalents at end of period	\$ 201,301	195,524

See accompanying notes to unaudited consolidated financial statements.

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WADDELL & REED FINANCIAL, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Significant Accounting Policies

Waddell & Reed Financial, Inc. and Subsidiaries

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

Basis of Presentation

We have prepared the accompanying unaudited consolidated financial statements included herein pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations, although we believe that the disclosures are adequate to enable a reasonable understanding of the information presented. The information in this Quarterly Report on Form 10-Q should be read in conjunction with Part I, Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations and our audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2008 (the 2008 Form 10-K). Certain amounts in prior period financial statements have been reclassified for consistent presentation.

The accompanying unaudited consolidated financial statements have been prepared consistently with the accounting policies described in Note 2 to the consolidated financial statements included in our 2008 Form 10-K, which include the following: use of estimates, cash and cash equivalents, disclosures about fair value of financial instruments, investment securities and investments in affiliated mutual funds, property and equipment, software developed for internal use, goodwill and identifiable intangible assets, deferred sales commissions, revenue recognition, advertising and promotion, share-based compensation, accounting for income taxes and derivatives and hedging activities.

Pursuant to SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* a replacement of FASB Statement No. 162, the FASB Accounting Standards Codification (ASC) became the sole source of authoritative U.S. GAAP for interim and annual periods ending after September 15, 2009, except for rules and interpretive releases of the SEC, which are sources

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of authoritative GAAP for SEC registrants. The Company adopted this standard during the third quarter of 2009. References to specific accounting standards in the footnotes to our consolidated financial statements have been changed to refer to the appropriate section of the ASC.

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The Company adopted the *Earnings Per Share Topic*, ASC 260 on January 1, 2009. This standard provides that unvested share-based payment awards that contain nonforfeitable rights to dividends are considered to be participating securities and must be included in the computation of earnings per share pursuant to the two-class method. As required upon adoption, we retrospectively adjusted prior period earnings per share data to conform to the provisions of this standard. See Note 6 for additional information.

The Company adopted the *Financial Instruments Topic*, ASC 825 on April 1, 2009. This standard requires disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements.

The Company has evaluated subsequent events through October 27, 2009, the date that these financial statements were issued.

In our opinion, the accompanying unaudited consolidated financial statements reflect all adjustments (consisting of only a normal and recurring nature) necessary to present fairly our financial position at September 30, 2009, the results of operations for the three and nine months ended September 30, 2009 and 2008 and cash flows for the nine months ended September 30, 2009 and 2008 in conformity with accounting principles generally accepted in the United States.

2. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and short-term investments. We consider all highly liquid investments with original or remaining maturities of 90 days or less at the date of purchase to be cash equivalents. At September 30, 2009, our cash and cash equivalents balance is comprised of commercial paper of \$11.1 million and cash and money market funds of \$190.2 million. Cash and cash equivalents restricted represents cash held for the benefit of customers segregated in compliance with federal and other regulations. Substantially all cash balances are in excess of federal deposit insurance limits.

Table of Contents**3. Investment Securities**

Investment securities at September 30, 2009 and December 31, 2008 are as follows:

September 30, 2009	Amortized cost	Unrealized gains (in thousands)	Unrealized losses	Fair value
Available-for-sale securities:				
Affiliated mutual funds	\$ 28,103	5,190	(69)	33,224
Municipal bonds	4,958	12	(212)	4,758
Mortgage-backed securities	11	2		13
	\$ 33,072	5,204	(281)	37,995
Trading securities:				
Affiliated mutual funds				38,803
Municipal bonds				475
Mortgage-backed securities				109
Corporate bonds				104
Common stock				32
				39,523
Total investment securities				77,518

December 31, 2008	Amortized cost	Unrealized gains (in thousands)	Unrealized losses	Fair value
Available-for-sale securities:				
Affiliated mutual funds	\$ 23,966	459	(5,133)	19,292
Municipal bonds	5,290		(1,086)	4,204
Mortgage-backed securities	11	1		12
	\$ 29,267	460	(6,219)	23,508
Trading securities:				
Affiliated mutual funds				34,566
Municipal bonds				372
Mortgage-backed securities				108
Corporate bonds				93
Common stock				37
				35,176
Total investment securities				58,684

Purchases and sales of trading securities during the nine months ended September 30, 2009 were \$133 thousand and \$14 thousand, respectively.

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A summary of debt securities and affiliated mutual funds with market values below carrying values at September 30, 2009 and December 31, 2008 is as follows:

September 30, 2009	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized (losses)	Fair value (in thousands)	Unrealized (losses)	Fair value	Unrealized (losses)
Municipal bonds	\$ 1,837	(71)	849	(141)	2,686	(212)
Affiliated mutual funds			881	(69)	881	(69)
Total temporarily impaired securities	\$ 1,837	(71)	1,730	(210)	3,567	(281)

December 31, 2008	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized (losses)	Fair value (in thousands)	Unrealized (losses)	Fair value	Unrealized (losses)
Municipal bonds	\$ 4,204	(1,086)			4,204	(1,086)
Affiliated mutual funds	16,574	(5,076)	51	(57)	16,625	(5,133)
Total temporarily impaired securities	\$ 20,778	(6,162)	51	(57)	20,829	(6,219)

Based upon our assessment of these municipal bonds and affiliated mutual funds, the time frame investments have been in a loss position, our intent to hold the affiliated mutual funds until they have recovered and our history of holding bonds until maturity, we determined that a write-down was not necessary at September 30, 2009.

During the first quarter of 2009, we recorded a pre-tax charge of \$3.7 million to reflect the other than temporary decline in value of certain of the Company's investments in affiliated mutual funds as the fair value of these investments had been below cost for an extended period. This charge is recorded in investment and other income (loss) in the consolidated statement of operations for the nine months ended September 30, 2009.

Mortgage-backed securities and municipal bonds accounted for as available-for sale and held as of September 30, 2009 mature as follows:

	Amortized cost	Fair value
	(in thousands)	
After one year but within 10 years	\$ 3,968	3,909
After 10 years	1,001	862
	\$ 4,969	4,771

Mortgage-backed securities, municipal bonds and corporate bonds accounted for as trading and held as of September 30, 2009 mature as follows:

Fair value

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(in thousands)

After one year but within 10 years	\$	579
After 10 years		109
	\$	688

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We determine the fair value of our investments using broad levels of inputs as defined by related accounting standards:

Level 1 - observable inputs such as quoted prices in active markets for identical securities

Level 2 - other significant observable inputs (including quoted prices in active markets for similar securities)

Level 3 - significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments)

The following table summarizes our investment securities at September 30, 2009 that are recognized in our balance sheet using fair value measurements based on the differing levels of inputs:

	Level 1	Level 2 (in thousands)	Level 3	Total
Investment securities	\$ 72,059	5,459	\$	77,518

Table of Contents**4. Restructuring**

In the fourth quarter of 2008, we initiated a restructuring plan to reduce our operating costs. We completed the restructuring by December 31, 2008, which included a voluntary separation of 169 employees and the termination of various projects under development. We recorded a pre-tax restructuring charge of \$16.5 million, consisting of \$15.0 million in employee compensation and other benefit costs, \$795 thousand for accelerated vesting of nonvested stock and \$717 thousand in project development costs, including \$500 thousand for the early termination of a contract.

The activity in the accrued restructuring liability during 2009 is summarized as follows:

	Accrued Liability as of December 31, 2008	Cash Payments (in thousands)	Non-cash Settlements and Other	Accrued Liability as of September 30, 2009
Employee compensation and other benefit costs	\$ 14,530	(9,470)	(288)	4,772
Contract termination and project development costs	500			500
	\$ 15,030	(9,470)	(288)	5,272

We expect the remaining restructuring costs to be paid out through 2010, with the majority paid out by the end of 2009. The restructuring liability of \$5.3 million is included in other current liabilities in the consolidated balance sheet at September 30, 2009.

5. Sale of Austin, Calvert & Flavin, Inc.

On July 15, 2009, the Company completed the sale of its wholly-owned subsidiary, Austin, Calvert & Flavin, Inc. (ACF) pursuant to a stock purchase agreement dated June 26, 2009. The agreement includes an earnout provision based on a percentage of revenues on existing accounts over the three-year period subsequent to the closing date. Prior to the closing date, ACF had 10 employees and assets under management of \$488.0 million.

Second quarter results included charges for severance and other transaction costs of \$548 thousand in connection with the divestiture of our investment in ACF. We recorded additional costs related to the sale in the third quarter of 2009 of \$543 thousand.

For tax purposes, this sale resulted in a capital loss of \$28.1 million, which will generate future tax benefits by offsetting potential future and prior period capital gains. Due to the character of the loss and the limited carryforward period permitted by law, the Company may not realize the full tax benefit of the capital loss. We recorded tax benefits in the third quarter of 2009 of \$2.9 million. Of this amount, \$2.3 million relates to carrying back a portion of the capital loss to fully offset capital gains generated during the applicable three-year carryback period and capital gains generated through the six months ended June 30, 2009. The remaining \$600 thousand tax benefit relates to utilizing capital losses to offset

capital gains generated during the third quarter of 2009.

Table of Contents**6. Stockholders Equity***Earnings per Share*

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

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
	(in thousands, except per share amounts)			
Net income	\$ 33,413	33,365	72,253	96,893
Weighted average shares outstanding - basic	85,699	85,632	85,503	86,112
Dilutive potential shares from stock options	75	375	62	466
Weighted average shares outstanding - diluted	85,774	86,007	85,565	86,578
Earnings per share:				
Basic	\$ 0.39	0.39	0.85	1.13
Diluted	\$ 0.39	0.39	0.84	1.12

Effective January 1, 2009, we adopted the *Earnings Per Share Topic*, ASC 260. This standard provides that unvested share-based payment awards that contain nonforfeitable rights to dividends are considered to be participating securities and must be included in the computation of earnings per share pursuant to the two-class method. As required upon adoption, we retrospectively adjusted prior period earnings per share data to conform to the provisions of this standard. Stock options are included in the calculation of diluted earnings per share using the treasury stock method.

Anti-dilutive Securities

Options to purchase 795 thousand shares and 866 thousand shares of Class A common stock (common stock) were excluded from the diluted earnings per share calculation for the three and nine months ended September 30, 2009, respectively, because they were anti-dilutive. Options to purchase 688 thousand shares and 588 thousand shares of common stock were excluded from the diluted earnings per share calculation for the three and nine months ended September 30, 2008, respectively, because they were anti-dilutive.

Dividends

On July 22, 2009, the Board of Directors (the Board) approved a dividend on our common stock in the amount of \$0.19 per share to stockholders of record as of October 2, 2009 to be paid on November 2, 2009. The total dividend to be paid is approximately \$16.2 million.

Common Stock Repurchases

The Board has authorized the repurchase of our common stock in the open market and/or private purchases. Our stock repurchase program does not have an expiration date or an aggregate maximum number or dollar value of shares that may be repurchased. The acquired shares may be used for corporate purposes, including shares issued to employees in our stock-based compensation programs. There were 666,433 shares and 1,510,233 shares repurchased in the open market or privately during the three and nine months ended September 30, 2009, respectively, and 1,105,700 shares and 2,706,700 shares repurchased in the open market or privately during the three and nine months ended September 30, 2008, respectively.

Table of Contents**7. Share-Based Compensation**

A summary of stock option activity and related information for the nine months ended September 30, 2009 follows:

	Options	Weighted average exercise price
Outstanding, December 31, 2008	2,021,844 \$	23.44
Granted	6,502	28.01
Exercised	(623,137)	16.70
Terminated/Cancelled	(272,378)	18.91
Outstanding, September 30, 2009	1,132,831 \$	28.27
Exercisable, September 30, 2009	1,126,329 \$	28.27

During the third quarter of 2009, we granted 6,502 options pursuant to our Stock Option Restoration Program (SORP), which have a vesting period of six months. Share-based compensation expense related to the options issued under the SORP totaling \$19 thousand was recorded for the three months ended September 30, 2009. The expense was calculated using a Black-Scholes option-pricing model assuming 64.9% expected volatility, a risk-free interest rate of 0.88%, a 2.71% expected dividend yield and an expected life of 1.79 years.

During 2009, we granted 1,611,060 shares of nonvested stock with an average fair market value of \$19.05 per share under the Company's 1998 Stock Incentive Plan, as amended and restated. The value of those shares at the grant date, aggregating \$30.7 million, will be amortized to expense over the four year vesting period.

8. Goodwill and Identifiable Intangible Assets

Goodwill represents the excess of purchase price over the tangible assets and identifiable intangible assets of an acquired business. Our goodwill is not deductible for tax purposes. The carrying values of goodwill and identifiable intangible assets (all considered indefinite lived) are summarized as follows:

	September 30, 2009	December 31, 2008
	(in thousands)	
Goodwill	\$ 202,518	202,518
Accumulated amortization	(36,307)	(36,307)
Total goodwill	166,211	166,211
Mutual fund management advisory contracts	38,699	38,699
Mutual fund subadvisory management contracts	16,300	16,300
Total identifiable intangible assets	54,999	54,999

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Total	\$	221,210	221,210
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9. Indebtedness

The Company entered into a 364-day revolving credit facility with various lenders, effective October 5, 2009, which initially provides for borrowings of up to \$125.0 million and replaces the Company's previous revolving credit facility. Lenders could, at their option upon the Company's request, expand the facility to \$200.0 million. At September 30, 2009, there was no balance outstanding under the old facility.

The fair value of the Company's long-term debt is approximately \$203.0 million as of September 30, 2009, compared to the carrying value of \$200.0 million.

10. Income Tax Uncertainties

As of January 1, 2009 and September 30, 2009, the Company had unrecognized tax benefits, including penalties and interest, of \$4.9 million (\$3.4 million net of federal benefit) and \$5.7 million (\$3.9 million net of federal benefit), respectively, that if recognized, would impact the Company's effective tax rate. The unrecognized tax benefits that are not expected to be settled within the next 12 months are included in other liabilities in the consolidated balance sheets; unrecognized tax benefits that are expected to be settled within the next 12 months are included in income taxes payable.

The Company's accounting policy with respect to interest and penalties related to tax uncertainties is to classify these amounts as income taxes. As of January 1, 2009, the total amount of accrued interest and penalties related to uncertain tax positions recognized in the consolidated balance sheet was \$1.6 million (\$1.2 million net of federal benefit). The total amount of penalties and interest, net of federal benefit, related to tax uncertainties recognized in the statement of income for the nine month period ended September 30, 2009 was \$204 thousand. The total amount of accrued penalties and interest related to uncertain tax positions at September 30, 2009 of \$1.8 million (\$1.5 million net of federal benefit) is included in the total unrecognized tax benefits described above.

In the ordinary course of business, many transactions occur for which the ultimate tax outcome is uncertain. In addition, respective tax authorities periodically audit our income tax returns. These audits examine our significant tax filing positions, including the timing and amounts of deductions and the allocation of income among tax jurisdictions. The 2005, 2006, 2007 and 2008 federal income tax returns are the only open tax years that remain subject to potential future audit. State income tax returns for all years after 2003 are subject to potential future audit by tax authorities in the Company's major state tax jurisdictions.

The Company is currently being audited in four state jurisdictions. It is reasonably possible that the Company will settle the audits in these jurisdictions within the next 12-month period. It is estimated that the Company's liability for unrecognized tax benefits could decrease by approximately \$648 thousand to \$2.0 million (\$439 thousand to \$1.3 million net of federal benefit) upon settlement of these audits. Such settlements are not anticipated to have a significant impact on reported income.

11. Pension Plan and Postretirement Benefits Other Than Pension

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

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The following table presents the components of net periodic pension and other postretirement costs related to these plans:

	Pension Benefits Three months ended September 30,		Other Postretirement Benefits Three months ended September 30,		Pension Benefits Nine months ended September 30,		Other Postretirement Benefits Nine months ended September 30,	
	2009	2008	2009	2008	2009	2008	2009	2008
	(in thousands)				(in thousands)			
Components of net periodic benefit cost:								
Service cost	\$ 1,319	1,431	93	74	\$ 3,957	4,295	279	222
Interest cost	1,597	1,581	85	66	4,790	4,744	255	197
Expected return on plan assets	(1,607)	(2,153)			(4,821)	(6,460)		
Actuarial (gain) loss amortization	399			(20)	1,197			(60)
Prior service cost amortization	139	139	10	10	417	416	30	29
Transition obligation amortization	1	1			3	4		
Total	\$ 1,848	999	188	130	\$ 5,543	2,999	564	388

During the nine month period ended September 30, 2009, we made a \$10.0 million contribution to the Pension Plan. We do not expect to make additional contributions to the Pension Plan for the remainder of 2009.

12. Contingencies

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

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

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which reflect the current views and assumptions of management with respect to future events regarding our business and industry in general. These forward-looking statements include all statements, other than statements of historical fact, regarding our financial position, business strategy and other plans and objectives for future operations, including statements with respect to revenues and earnings, the amount and composition of assets under management, distribution sources, expense levels, redemption rates and the financial markets and other conditions. These statements are generally identified by the use of such words as may, could, should, would, believe, anticipate, forecast, estimate, plan, project, outlook, will, potential and similar statements of a future or forward-looking nature. Readers are cautioned that any forward-looking information provided by or on behalf of the Company is not a guarantee of future performance. Actual results may differ materially from those contained in these forward-looking statements as a result of various factors, including but not limited to those discussed below. If one or more events related to these or other risks, contingencies or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from those forecasted or expected. Certain important factors that could cause actual results to differ materially from our expectations are disclosed in the Risk Factors section of our Annual Report on Form 10-K for the year ended December 31, 2008, which include, without limitation:

- *A decline in the securities markets or in the relative investment performance of our Funds and other investment portfolios and products as compared to competing funds;*
- *A decrease in, or the elimination of, any future quarterly dividend paid to stockholders;*
- *The loss of existing distribution channels or inability to access new distribution channels;*
- *A reduction in assets under our management on short notice, through increased redemptions in our distribution channels or our Funds, particularly those Funds with a high concentration of assets, or investors terminating their relationship with us or shifting their funds to other types of accounts with different rate structures;*
- *The introduction of legislative, judicial or regulatory proposals that change the independent contractor classification of our financial advisors;*
- *Our inability to hire and retain senior executive management and other key personnel;*

- *The impairment of goodwill or other intangible assets on our balance sheet; and*
- *Investors' failure to renew our investment management or subadvisory agreements, or the terms of any such renewals being on unfavorable terms.*

The foregoing factors should not be construed as exhaustive and should be read together with other cautionary statements included in this and other reports and filings we make with the Securities and Exchange Commission, including the information in Item 1 Business and Item 1A Risk Factors of Part I and Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations of Part II to our Annual Report on Form 10-K for the year ended December 31, 2008 and as updated in our quarterly reports on Form 10-Q for the year ending December 31, 2009. All forward-looking statements speak only as the date on which they are made and we undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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Overview

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We are one of the oldest mutual fund and asset management firms in the country, with expertise in a broad range of investment styles and across a variety of market environments. Our earnings and cash flows are heavily dependent on financial market conditions. Significant increases or decreases in the various securities markets, particularly U.S. equity markets, can have a material impact on our results of operations, financial condition and cash flows.

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

One of our distinctive qualities is that we are a significant distributor of investment products. Our retail products are distributed through our sales force of registered financial advisors (the Advisors channel) or through third-parties such as other broker/dealers, registered investment advisors (including the retirement advisors of the Legend Group of subsidiaries (Legend)) and various retirement platforms, (collectively, the Wholesale channel). We also market our investment advisory services to institutional investors, either directly or through consultants (the Institutional channel).

Sale of Austin, Calvert & Flavin, Inc.

On July 15, 2009, the Company completed the sale of its wholly-owned subsidiary, Austin, Calvert & Flavin, Inc. (ACF) pursuant to a stock purchase agreement dated June 26, 2009. The agreement includes an earnout provision based on a percentage of revenues on existing accounts over the three-year period subsequent to the closing date. Prior to the closing date, ACF had 10 employees and assets under management of \$488.0 million.

Second quarter results included charges for severance and other transaction costs of \$548 thousand in connection with the divestiture of our investment in ACF. We recorded additional costs related to the sale in the third quarter of 2009 of \$543 thousand. These charges are included in general and administrative in the consolidated statements of operations

For tax purposes, this sale resulted in a capital loss of \$28.1 million, which will generate future tax benefits by offsetting potential future and prior period capital gains. Due to the character of the loss and the limited carryforward period permitted by law, the Company may not realize the full tax benefit of the capital loss. We recorded tax benefits in the third quarter of 2009 of \$2.9 million. Of this amount, \$2.3 million relates to carrying back a portion of the capital loss to fully offset capital gains generated during the applicable three-year carryback period and capital gains generated through the six months ended June 30, 2009. The remaining \$600 thousand tax benefit relates to utilizing capital losses to offset capital gains generated during the third quarter of 2009.

Market Developments

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During 2008, we operated in a period of high volatility in the financial markets - the Dow Jones Industrial Average declined 34% and the Standard & Poor's 500 Index declined 38%. Almost every class of

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financial assets experienced significant price declines and high volatility. The U.S. government took steps to stabilize the financial markets and the banking system to ensure continued availability of commercial and consumer credit. Markets have rallied in 2009; the Dow Jones Industrial Average is up 11% and the Standard & Poor's 500 Index increased 17% through September 30, 2009. Even with the recent market improvements, the economic outlook remains uncertain and we anticipate a challenging business climate for the remainder of the year.

Since average assets under management during 2009 are substantially less than our average assets under management during 2008, we have experienced a significant decline in revenue in 2009 relative to 2008. Although we took steps in the fourth quarter of 2008 to manage our expenses in response to current market conditions, we expect that our net income and operating margins may remain under pressure for the rest of the year.

Our balance sheet remains strong, as we ended the quarter with cash and investments of \$278.8 million. We renewed our 364-day unsecured line of credit in early October with commitments from a syndicate of banks for \$125.0 million, expandable to \$200.0 million. We believe that our current liquidity position will allow us to manage through the market downturn for the foreseeable future.

Accounting Pronouncements Not Yet Adopted

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS No. 167). SFAS No. 167 improves how enterprises account for and disclose their involvement with variable interest entities (VIEs) and other entities whose equity at risk is insufficient or lacks certain characteristics. SFAS No. 167 changes how an entity determines whether it is the primary beneficiary of a VIE and whether that VIE should be consolidated and requires additional disclosures. As a result, the Company must comprehensively review its involvements with VIEs and potential VIEs to determine the effect on its consolidated financial statements and related disclosures. SFAS No. 167 is effective for fiscal years beginning after November 15, 2009 and interim periods within those fiscal years. Earlier application is prohibited. Significant efforts are still under way to interpret the new accounting standard and its impact on the asset management industry; however, based on its review to date, the Company does not believe that adoption of this standard will have a material effect on the Company's consolidated financial condition or results of operations.

Table of Contents**Assets Under Management**

Assets under management increased to \$64.5 billion on September 30, 2009 compared to \$55.6 billion on June 30, 2009 due to market appreciation of \$6.9 billion and net flows of \$2.4 billion. Net sales were driven by the Wholesale channel during the quarter.

Change in Assets Under Management(1)

	Advisors	Third Quarter 2009 Wholesale Institutional (in millions)		Total
Beginning Assets	\$ 25,205	23,213	7,193	\$ 55,611
Disposition of Assets			(488)	(488)
Sales (net of commissions)	804	4,064	277	5,145
Redemptions	(719)	(1,524)	(608)	(2,851)
Net Sales	85	2,540	(331)	2,294
Net Exchanges	(25)	24		(1)
Reinvested Dividends & Capital Gains	78	29	30	137
Net Flows	138	2,593	(301)	2,430
Market Appreciation	3,008	3,169	759	6,936
Ending Assets	\$ 28,351	28,975	7,163	\$ 64,489

	Advisors	Third Quarter 2008 Wholesale Institutional (in millions)		Total
Beginning Assets	\$ 32,687	28,948	8,489	\$ 70,124
Sales (net of commissions)	871	3,743	560	5,174
Redemptions	(904)	(2,714)	(303)	(3,921)
Net Sales	(33)	1,029	257	1,253
Net Exchanges	(27)	24		(3)
Reinvested Dividends & Capital Gains	66	(9)	26	83
Net Flows	6	1,044	283	1,333
Market Depreciation	(4,188)	(6,639)	(846)	(11,673)
Ending Assets	\$ 28,505	23,353	7,926	\$ 59,784

(1) Includes all activity of the Funds and institutional accounts, including money market funds.

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Assets under management increased to \$64.5 billion on September 30, 2009 compared to \$47.5 billion on December 31, 2008 due to market appreciation of \$10.9 billion and net flows of \$6.6 billion. Net sales were driven by the Wholesale channel during the nine month period.

	Advisors	Year to Date 2009 Wholesale Institutional (in millions)		Total
Beginning Assets	\$ 23,472	17,489	6,523	\$ 47,484
Disposition of Assets			(488)	(488)
Sales (net of commissions)	2,282	10,557	1,198	14,037
Redemptions	(2,266)	(4,240)	(1,397)	(7,903)
Net Sales	16	6,317	(199)	6,134
Net Exchanges	(78)	49	26	(3)
Reinvested Dividends & Capital Gains	258	113	82	453
Net Flows	196	6,479	(91)	6,584
Market Appreciation	4,683	5,007	1,219	10,909
Ending Assets	\$ 28,351	28,975	7,163	\$ 64,489

	Advisors	Year to Date 2008 Wholesale Institutional (in millions)		Total
Beginning Assets	\$ 34,562	21,537	8,769	\$ 64,868
Sales (net of commissions)	3,019	13,730	1,920	18,669
Redemptions	(2,735)	(5,128)	(1,165)	(9,028)
Net Sales	284	8,602	755	9,641
Net Exchanges	(130)	124		(6)
Reinvested Dividends & Capital Gains	228	28	82	338
Net Flows	382	8,754	837	9,973
Market Depreciation	(6,439)	(6,938)	(1,680)	(15,057)
Ending Assets	\$ 28,505	23,353	7,926	\$ 59,784

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

Average Assets Under Management

	Advisors	Third Quarter 2009 Wholesale Institutional (in millions)		Total
Asset Class:				
Equity	\$ 19,937	24,265	6,447	\$ 50,649
Fixed Income	5,391	1,339	671	7,401
Money Market	1,513	297		1,810
Total	\$ 26,841	25,901	7,118	\$ 59,860

	Advisors	Third Quarter 2008 Wholesale Institutional (in millions)		Total
Asset Class:				
Equity	\$ 25,198	26,732	7,824	\$ 59,754
Fixed Income	4,616	380	583	5,579
Money Market	1,391	142		1,533
Total	\$ 31,205	27,254	8,407	\$ 66,866

	Advisors	Year to Date 2009 Wholesale Institutional (in millions)		Total
Asset Class:				
Equity	\$ 17,960	20,390	6,130	\$ 44,480
Fixed Income	5,021	989	635	6,645
Money Market	1,674	299		1,973
Total	\$ 24,655	21,678	6,765	\$ 53,098

	Advisors	Year to Date 2008 Wholesale Institutional (in millions)		Total
Asset Class:				
Equity	\$ 26,479	25,294	7,890	\$ 59,663
Fixed Income	4,517	391	587	5,495
Money Market	1,346	110		1,456
Total	\$ 32,342	25,795	8,477	\$ 66,614

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Results of Operations Three and Nine Months Ended September 30, 2009 as Compared with Three and Nine Months Ended September 30, 2008
Net Income

	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	Variance	2009	2008	Variance
	(in thousands, except per share amounts and percentage data)					
Net Income	\$ 33,413	33,365	0%	\$ 72,253	96,893	-25%
Earnings per share:						
Basic	\$ 0.39	0.39	0%	\$ 0.85	1.13	-25%
Diluted	\$ 0.39	0.39	0%	\$ 0.84	1.12	-25%
Operating Margin	22%	23%	-4%	20%	22%	-9%

We reported net income of \$33.4 million, or \$0.39 per diluted share, for the third quarter of 2009 compared to \$33.4 million, or \$0.39 per diluted share, for the third quarter of 2008. Net income for the nine months ended September 30, 2009 was \$72.3 million, or \$0.84 per diluted share, compared to net income of \$96.9 million, or \$1.12 per diluted share, for the same period in 2008.

Total Revenues

Total revenues decreased 10% to \$218.0 million and 18% to \$594.3 million for the three and nine months ended September 30, 2009, respectively, compared to the same periods in 2008. Decreases in both periods are attributable to a decline in average assets under management of 10% and 20% for the three and nine months ended September 30, 2009, respectively, compared to the same periods in 2008 and a decrease in gross sales of 1% and 25% for the three and nine months ended September 30, 2009, respectively, compared to the same periods in the prior year.

	Three months ended September 30,			Variance
	2009	2008	(in thousands, except percentage data)	
Investment management fees	\$ 94,687	107,911		-12%
Underwriting and distribution fees	96,559	107,054		-10%
Shareholder service fees	26,730	26,259		2%
Total revenues	\$ 217,976	241,224		-10%

	Nine months ended September 30,			Variance
	2009	2008	(in thousands, except percentage data)	

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Investment management fees	\$	248,234	323,466	-23%
Underwriting and distribution fees		268,379	327,419	-18%
Shareholder service fees		77,663	77,191	1%
Total revenues	\$	594,276	728,076	-18%

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Investment Management Fee Revenues

Investment management fee revenues are earned for providing investment advisory services to the Funds and to institutional and separate accounts. Investment management fee revenues decreased \$13.2 million, or 12%, from last year's third quarter and \$75.2 million, or 23%, for the nine month period ended September 30, 2009 compared to the same period in the prior year.

Revenues from investment management services provided to our retail mutual funds, which are distributed through the Advisors, Wholesale and Institutional channels, were \$87.5 million for the quarter ended September 30, 2009. Revenues decreased \$11.4 million, or 12%, compared to the third quarter of 2008, while the related retail average assets decreased 10% to \$52.7 billion. For the nine months ended September 30, 2009, revenues from investment management services provided to our retail mutual funds decreased \$68.4 million, or 23%, to \$227.5 million compared to the first nine months of 2008, while the related retail average assets decreased 20% to \$46.3 billion. Investment management fee revenues decreased more than the related retail average assets due to a decline in the average management fee rate. This decline was primarily due to the continued shift in the mix of assets under management toward lower fee products. Retail sales in the third quarter of 2009 were \$4.9 billion, a 6% increase compared to sales in the third quarter of 2008 and were \$12.8 billion for the nine months ended September 30, 2009, a 23% decrease compared to the same period in 2008.

Prior to the sale of ACF effective July 15, 2009, ACF had assets under management of \$488.0 million. ACF's assets under management and related investment management fee revenues were included in the institutional channel until the closing date.

Institutional account revenues were \$7.2 million for the third quarter of 2009, representing a decrease of \$1.8 million, or 20%, from last year's third quarter. While the decrease was partially due to the sale of ACF, we experienced a further decline in average assets of 11% and a decline in the average management fee rate. Year-to-date institutional account revenues decreased 25% to \$20.8 million in 2009 compared to the same period in 2008, due to the sale of ACF, a further decline in average assets of 19% and a decline in the average management fee rate.

The long-term redemption rate (excluding money market fund redemptions) in the Advisors channel was 7.6% in this year's third quarter and 8.7% year-to-date, compared to 8.2% in the third quarter of 2008 and 8.1% for the first nine months of 2008. In the Wholesale channel, the long-term redemption rate was lower in this year's third quarter, at 22.5%, compared to 39.3% in the third quarter of 2008. For the nine months ended September 30, 2009, the Wholesale channel's long-term redemption rate decreased to 25.3% compared to 26.3% for the same period in 2008. We expect the Advisors channel long-term redemption rate to remain lower than that of the Wholesale channel due to the personal and customized nature in which our financial advisors provide service to our clients. The long-term redemption rate for our Institutional channel increased to 34.4% for the third quarter of 2009 compared to 14.3% for the third quarter of 2008 and increased to 28.4% for the nine month period ended September 30, 2009 compared to 18.4% for the same period in 2008.

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The following tables illustrate our underwriting and distribution fee revenues and expenses segregated by distribution method within the respective Advisors or Wholesale channel:

Third Quarter 2009 Wholesale					
	Advisors	Third-Party (in thousands)	Legend		Total
Revenue	\$ 53,125	30,989	12,445	\$	96,559
Expenses					
Direct	36,367	39,327	7,949		83,643
Indirect	21,336	7,132	3,008		31,476
	57,703	46,459	10,957		115,119
Net Underwriting & Distribution	\$ (4,578)	(15,470)	1,488	\$	(18,560)

Third Quarter 2008 Wholesale					
	Advisors	Third-Party (in thousands)	Legend		Total
Revenue	\$ 57,968	36,242	12,844	\$	107,054
Expenses					
Direct	40,106	41,520	8,526		90,152
Indirect	23,428	8,539	3,470		35,437
	63,534	50,059	11,996		125,589
Net Underwriting & Distribution	\$ (5,566)	(13,817)	848	\$	(18,535)

Year to Date 2009 Wholesale					
	Advisors	Third-Party (in thousands)	Legend		Total
Revenue	\$ 152,800	81,286	34,293	\$	268,379
Expenses					
Direct	105,957	103,254	21,962		231,173
Indirect	63,993	20,728	8,724		93,445
	169,950	123,982	30,686		324,618
Net Underwriting & Distribution	\$ (17,150)	(42,696)	3,607	\$	(56,239)

Year to Date 2008 Wholesale					
	Advisors	Third-Party (in thousands)	Legend		Total
Revenue	\$ 183,457	102,492	41,470	\$	327,419
Expenses					
Direct	127,690	124,422	27,644		279,756
Indirect	69,632	23,163	10,107		102,902
	197,322	147,585	37,751		382,658
Net Underwriting & Distribution	\$ (13,865)	(45,093)	3,719	\$	(55,239)

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Underwriting and distribution revenues earned in this year's third quarter decreased \$10.5 million, or 10%, compared with the third quarter of 2008. A majority of the decrease in revenues was due to lower Rule 12b-1 asset-based service and distribution fee revenues of \$8.2 million as a result of a decrease in average mutual fund assets under management. Revenues from front-load product sales sold in the Advisors channel decreased by \$2.0 million, which included a decrease in Class A share revenues of \$1.4 million and a decrease in variable annuity revenues of \$900 thousand quarter over quarter. Revenues from front-load product sales sold in the Wholesale channel decreased \$400 thousand. Revenues from fee-based allocation products increased \$1.5 million. While we expect the shift from front-load to fee-based sales to put some short-term pressure on both the underwriting and distribution margin and the operating margin in the Advisors channel, the asset-based fee structure has the opportunity for better long-term margins. In the Wholesale channel, revenues earned from mutual fund redemptions decreased \$1.1 million compared to the third quarter of 2008.

Underwriting and distribution revenues earned for the nine months ended September 30, 2009 decreased \$59.0 million, or 18%, compared with the same period in the prior year. The decrease in revenues was due to lower Rule 12b-1 asset-based service and distribution fee revenues of \$38.2 million as a result of a decrease in average mutual fund assets under management. Revenues on front-load product sales sold in the Advisors channel decreased by \$14.8 million, which included a decrease in Class A share revenues of \$11.2 million and a decrease in variable annuity revenues of \$3.0 million. Revenues from front-load product sales sold in the Wholesale channel decreased \$3.1 million. Additionally, insurance-related revenues increased \$2.2 million and revenues from fee-based allocation products increased \$3.2 million compared to the prior year. In the Wholesale channel, revenues earned from mutual fund redemptions decreased \$800 thousand compared to the first nine months of 2008. Lower advisory fees, Rule 12b-1 service fee revenues and point of sale commissions earned by Legend decreased revenue by \$7.2 million compared to the first nine months of 2008.

Underwriting and distribution expenses decreased by \$10.5 million, or 8%, when compared with the third quarter of 2008. Of this decrease, \$2.8 million was attributed to lower direct expenses in the Wholesale channel as a result of a decrease in average wholesale assets under management, partially offset by increased sales. Specifically, we incurred lower dealer compensation paid to third party distributors and lower amortization expense of deferred sales commissions, partially offset by higher Rule 12b-1 asset-based service and distribution expenses and higher wholesaler commissions. Direct expenses in the Advisors channel decreased \$3.7 million, or 9%, compared to the third quarter of 2008 due to lower point of sale commissions on front-load product sales of \$1.9 million and lower Rule 12b-1 asset-based service and distribution commissions of \$3.2 million, partially offset by higher amortization expense of deferred sales commissions of \$1.3 million. Indirect expenses decreased \$4.0 million quarter over quarter. The indirect expense decrease of \$2.1 million in the Advisors channel relates to decreased employee compensation and benefits expenses, lower convention costs, decreased legal costs and lower business meeting expenses. The indirect expense decrease of \$1.9 million in the Wholesale channel relates to lower marketing and promotion costs and decreased business meeting expenses.

Underwriting and distribution expenses for the nine months ended September 30, 2009 decreased by \$58.0 million, or 15%, when compared with the same period in 2008. A significant portion of this decrease was attributed to lower direct expenses in the Wholesale channel of \$26.9 million as a result of lower sales volume and a decrease in average wholesale assets under management. We incurred lower dealer compensation paid to third party distributors, lower wholesaler commissions and lower amortization expense of deferred sales commissions, partially offset by higher Rule 12b-1 asset-based service and distribution expenses. Direct expenses in the Advisors channel decreased \$21.7 million, or 17%, compared to the first nine months of 2008 due to lower point of sale commissions on front-load product sales of \$11.8 million, lower Rule 12b-1 asset-based service and distribution commissions of \$15.0 million and lower commissions related to the sale of fee-based asset allocation products of \$4.7 million, partially offset by higher amortization expense of deferred sales commissions of \$8.3 million and higher commissions on insurance products of \$1.1 million. Indirect expenses

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decreased \$9.5 million compared to the same period last year. The indirect expense decrease of \$5.6 million in the Advisors channel relates to decreased employee compensation and benefits expenses, lower convention costs, decreased legal costs and lower business meeting expenses. The indirect expense decrease of \$3.9 million in the Wholesale channel relates to decreased employee compensation and benefits expenses and lower business meeting expenses and marketing and promotion costs.

Shareholder Service Fees Revenue

Shareholder service fee revenues primarily include transfer agency fees, custodian fees from retirement plan accounts, and portfolio accounting and administration fees. Portfolio accounting and administration fees are asset-based revenues while all other shareholder service fee revenues are based on number of accounts. During the third quarter of 2009, shareholder service fee revenues increased 2% over the third quarter of 2008 primarily due to a higher asset base quarter over quarter. For the nine months ended September 30, 2009 shareholder service fee revenues increased 1% compared to the same period in 2008, primarily due to a 4% increase in the average number of accounts. Revenues did not correlate with the increase in average number of accounts for the nine months ended September 30, 2009 due to a lower fee structure for servicing certain wholesale accounts.

Total Operating Expenses

Operating expenses decreased \$16.3 million, or 9%, in the third quarter of 2009 compared to the third quarter of 2008 primarily due to decreased underwriting and distribution expenses and subadvisory fees. Operating expenses decreased \$92.9 million, or 16%, for the first nine months of 2009 compared to the same period in 2008 primarily due to decreased underwriting and distribution expenses, compensation and related costs and subadvisory fees. Underwriting and distribution expenses are discussed above.

Three Months Ended September 30,			
	2009	2008	Variance
	(in thousands, except percentage data)		
Underwriting and distribution	\$ 115,119	125,589	-8%
Compensation and related costs	29,275	30,701	-5%
General and administrative	15,106	14,912	1%
Subadvisory fees	6,129	10,866	-44%
Depreciation	3,503	3,389	3%
Total operating expenses	\$ 169,132	185,457	-9%

Nine Months Ended September 30,			
	2009	2008	Variance
	(in thousands, except percentage data)		
Underwriting and distribution	\$ 324,618	382,658	-15%
Compensation and related costs	82,373	97,917	-16%
General and administrative	43,022	43,476	-1%
Subadvisory fees	16,317	35,737	-54%
Depreciation	10,259	9,717	6%
Total operating expenses	\$ 476,589	569,505	-16%

Compensation and Related Costs

During 2009, we granted 1,611,060 shares of nonvested stock with an average fair market value of \$19.05 per share under the Company's 1998 Stock Incentive Plan, as amended and restated. The value of those shares at the grant date, aggregating \$30.7 million, will be amortized to expense over the four year vesting period.

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In the third quarter of 2009, compensation and related costs decreased \$1.4 million compared to the third quarter of 2008, primarily due to lower expense for base salaries and related payroll taxes of \$2.3 million driven by a voluntary separation program effective as of December 31, 2008. This decrease was offset by increased pension plan expenses of \$500 thousand and decreased capitalized software development activities of \$400 thousand. Additionally, share-based compensation decreased \$200 thousand compared to the third quarter of 2008.

Compensation and related costs for the nine months ended September 30, 2009 decreased \$15.5 million compared to the same period in 2008, primarily due to lower incentive compensation expense of \$12.2 million compared to 2008. Base salaries and payroll taxes decreased \$5.8 million due to the voluntary separation program previously mentioned. These expense decreases were partially offset by decreased capitalized software development activities of \$1.6 million, increased pension plan expenses of \$1.6 million and higher share-based compensation expense of \$500 thousand, partially related to non-employee advisor stock awards. Non-employee stock awards are adjusted to market each period based on the fluctuation in our share price.

General and Administrative Costs

General and administrative expenses increased \$200 thousand to \$15.1 million for the third quarter of 2009 compared to the third quarter of 2008. The increase is due to higher computer services and software costs, higher fund expenses and increased facilities charges, partially offset by lower costs for temporary information technology contractors and business meetings and travel. The third quarter of 2009 includes a charge of \$543 thousand for severance and other transaction costs related to the divestiture of our subsidiary, ACF.

General and administrative expenses of \$43.0 million for the first nine months of 2009 represents a decrease of \$500 thousand, or 1%, compared to the first nine months of 2008. The decrease is due to lower costs for temporary information technology contractors, business meetings and travel and recruiting, partially offset by higher computer services and software costs, fund expenses and facilities charges. The nine month period ended September 30, 2009 includes charges of \$1.1 million for severance and other transaction costs related to the divestiture of ACF.

Subadvisory Fees

Subadvisory fees represent fees paid to other asset managers for providing advisory services for certain mutual fund portfolios. These expenses reduce our operating margin since we pay out approximately half of our management fee revenue received from subadvised products. Gross management fee revenues for products subadvised by others were \$12.1 million for the three months ended September 30, 2009 compared to \$21.6 million for the third quarter of 2008 due to a 45% decline in average net assets. For the nine months ended September 30, 2009, gross management fee revenues for products subadvised by others were \$32.3 million compared to \$70.5 million for the same period in 2008 due to a 56% decline in average net assets.

Subadvisory expenses decreased \$4.7 million this quarter compared to last year's third quarter and \$19.4 million for the first nine months of 2009 compared to the same period in 2008. Significant sales growth in our Wholesale channel in 2008, particularly sales of our subadvised specialty mutual fund products, drove expenses higher in 2008; however, subadvised average assets under management dropped to \$5.8 billion for the quarter ended September 30, 2009 from \$10.6 billion for the quarter ended September 30, 2008. Subadvised average assets under management dropped to \$5.2 billion for the nine months ended September 30, 2009 from \$11.8 billion for the nine months ended September 30, 2008.

Since subadvisory expenses are a function of sales, redemptions and market action for subadvised assets, the lower asset base will likely result in continued lower subadvisory expenses compared to last year, although average subadvised net assets did increase from the second quarter to the third quarter of 2009.

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Other Income and Expenses

Investment and Other Income(Loss), Interest Expense and Taxes

Investment and other income totaled \$2.3 million for this year's third quarter, compared to investment and other loss of \$500 thousand in the same period a year ago. Gains in our trading portfolio were \$1.7 million in this year's third quarter compared to losses of \$1.9 million in the prior year third quarter. Lower effective interest rates on cash and short-term investments combined with lower average balances in this year's third quarter resulted in a reduction to investment income of \$1.2 million when compared to the prior year third quarter.

For the nine months ended September 30, 2009, investment and other income was \$1.4 million compared to \$3.5 million for the same period in 2008. Included in the current year is a non-cash charge of \$3.7 million to reflect the other than temporary impairment of certain of the Company's investments in affiliated mutual funds as the fair value of these investments was below cost for an extended period. Excluding the impairment in 2009, investment and other income increased by \$1.6 million year over year. We experienced improvement in our trading portfolio of mutual fund holdings, which had gains of \$3.6 million in the first nine months of 2009 compared to losses of \$2.5 million in the first nine months of 2008. Lower effective interest rates on cash and short-term investments combined with lower average balances in the first nine months of 2009 resulted in a reduction to investment income of \$5.2 million when compared to the nine months ended September 30, 2008 and partially offset the improvement in our trading portfolio mentioned previously.

Interest expense was \$3.2 million for the third quarter of 2009 compared to \$3.0 million for the third quarter of 2008, and \$9.5 million and \$8.9 million for the first nine months of 2009 and 2008, respectively.

Our effective tax rate was 30.4% for the third quarter of 2009 and 34.1% for the nine months ended September 30, 2009. The decrease to our effective tax rate in the third quarter of 2009 was primarily the result of the carryback of capital losses generated in connection with the sale of ACF, which offset taxes paid on capital gains in previous years. Benefits were also realized for capital gains recognized in income during 2009. Due to the limited capital loss carryforward period, the Company established a valuation allowance against the deferred tax asset attributable to capital losses whereby future realization is not more likely than not. Reversal of all or a portion of the remaining valuation allowance ascribed to the ACF transaction may occur in the future if we are able to generate sufficient capital gains. We also realized benefits in the quarter from state tax incentives related to renovations of our corporate headquarters. The Company expects its future effective tax rate, exclusive of any state tax incentives, unanticipated state tax legislative changes, impact of state tax audit settlements, unanticipated decreases in earnings, and any release of the valuation allowance, to range from 36.4% to 38.0%.

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Liquidity and Capital Resources

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

- Finance internal growth
- Pay dividends
- Repurchase our stock

Finance Internal Growth

We use cash to fund growth in our distribution channels. Our Wholesale channel, which has a higher cost to gather assets, requires cash outlays for wholesaler commissions and commissions to third parties on deferred load product sales. We continue to invest in our Advisors channel by providing additional support to our advisors through training opportunities, wholesaling efforts and enhanced technology tools.

Dividends

We paid quarterly dividends on our common stock that resulted in financing cash outflows of \$48.8 million for the first nine months of 2009. The dividends paid on our common stock during the first nine months of 2008 resulted in financing cash outflows of \$47.6 million.

Repurchases

We repurchased 1,510,233 shares and 2,706,700 shares of our common stock in the open market or privately during the nine months ended September 30, 2009 and 2008, respectively. The repurchases resulted in cash outflows of \$35.5 million and \$83.9 million for the nine month periods ending September 30, 2009 and 2008, respectively.

Operating Cash Flows

Cash from operations is our primary source of funds and increased \$11.6 million for the nine months ended September 30, 2009 compared to the previous year. A decrease in deferred sales commission payments related to sales of deferred load and fee based products offset the impact of considerably lower net earnings compared to 2008. The increase to cash flow from operations related to the increase in payable to investment companies for securities on our consolidated balance sheet is offset by increases to cash and cash equivalents restricted and customers and other receivables.

We made a \$10.0 million contribution to our pension plan in the first nine months of 2009. We do not expect to make additional contributions to the pension plan for the remainder of 2009.

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Investing Cash Flows

Investing cash flows consist primarily of the purchase and sale of available-for-sale investment securities, as well as capital expenditures. We expect our 2009 capital expenditures to decline from 2008 levels based on completion of our home office renovation, initiated in 2007.

Financing Cash Flows

As noted previously, dividends and stock repurchases accounted for a majority of our financing cash outflows in the first nine months of 2009 and 2008.

Other Sources of Liquidity

Effective October 5, 2009, we negotiated a renewal of our 364-day revolving credit facility with various lenders for a total of \$125.0 million, whereby the lenders could, at their option upon our request, expand the facility to \$200.0 million. At September 30, 2009, there was no balance outstanding under the old facility.

Future Capital Requirements

Management believes its available cash, marketable securities and expected cash flow from operations will be sufficient to fund its short-term operating and capital requirements. We expect significant uses of cash to include expected dividend payments, interest payments on outstanding debt, income tax payments, share repurchases, payment of deferred commissions to our financial advisors and third parties, capital expenditures and pension funding, and could include strategic acquisitions.

Expected long-term capital requirements include indebtedness, operating leases and purchase obligations, and potential recognition of tax liabilities. Other possible long-term discretionary uses of cash could include capital expenditures for enhancement of technology infrastructure, strategic acquisitions, payment of dividends, income tax payments, seed money for new products, payment of upfront fund commissions for Class B shares, Class C shares and certain fee-based asset allocation products, and repurchases of our common stock.

Critical Accounting Policies and Estimates

Management believes certain critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements. The Company's critical accounting policies and estimates are disclosed in the Critical Accounting Policies and

Estimates section of our 2008 Form 10-K.

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Supplemental Information

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	Third Quarter 2009	Third Quarter 2008	Change	Year to Date 2009	Year to Date 2008	Change
Redemption rates - long term (annualized)						
Advisors	7.6%	8.2%		8.7%	8.1%	
Wholesale	22.5%	39.3%		25.3%	26.3%	
Institutional	34.4%	14.3%		28.4%	18.4%	
Total	17.4%	21.9%		18.1%	16.6%	
Sales per advisor (000 s) (1)						
Total	233	272	-14.3%	681	978	-30.4%
2+ Years (2)	341	412	-17.2%	977	1,464	-33.3%
0 to 2 Years (3)	73	84	-13.1%	168	240	-30.0%
Gross production per advisor (000 s)						
	14.2	15.0	-5.3%	43.2	49.5	-12.7%
Number of financial advisors (1)						
Average number of financial advisors (1)	2,404	2,357	2.0%	2,404	2,357	2.0%
	2,376	2,322	2.3%	2,323	2,276	2.1%
Number of shareholder accounts (000 s)						
	3,805	3,736	1.8%	3,805	3,736	1.8%
Number of shareholders						
	874,506	878,420	-0.4%	874,506	878,420	-0.4%

(1) Excludes Legend advisors

(2) Financial advisors licensed with the Company for two or more years

(3) Financial advisors licensed with the Company less than two years

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company has had no significant changes in its Quantitative and Qualitative Disclosures About Market Risk from that previously reported in the Company's 2008 Form 10-K.

Item 4. Controls and Procedures

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

timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

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The Company's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. However, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

Changes in Internal Controls

During the first quarter of 2009, we implemented an enterprise resource planning (ERP) system used to accumulate financial data used in financial reporting. The implementation of this ERP system resulted in changes to our system of internal control over financial reporting that we believe enhance our system of internal controls and was not made in response to any deficiency in internal control.

There were no other changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

The Company has had no significant changes to its Risk Factors from those previously reported in the Company's 2008 Form 10-K.

Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table sets forth certain information about the shares of common stock we repurchased during the third quarter of 2009.

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Program
July 1 - July 31	51,043	\$ 23.73	51,043	n/a(1)
August 1 - August 31	281,135	26.76	281,135	n/a(1)
September 1 - September 30	346,800	26.00	346,800	n/a(1)
Total	678,978	\$ 26.14	678,978	

(1) On August 31, 1998, we announced that our Board of Directors approved a program to repurchase shares of our common stock on the open market. Under the repurchase program, we are authorized to repurchase, in any seven-day period, the greater of (i) 3% of our outstanding common stock or (ii) \$50 million of our common stock. We may repurchase our common stock through the New York Stock Exchange, other national or regional market systems, electronic communication networks or alternative trading systems such as POSIT, during regular or after-hours trading sessions. POSIT is an alternative trading system that uses passive pricing to anonymously match buy and sell orders. To date, we have not used electronic communication networks or alternative trading systems to repurchase any of our common stock and do not intend to use such networks or systems in the foreseeable future. Our stock repurchase program does not have an expiration date or an aggregate maximum number or dollar value of shares that may be repurchased. Our Board of Directors reviewed and ratified the stock repurchase program in July 2004. During the third quarter of 2009, all stock repurchases were made pursuant to the purchase program including 6,043 shares that were purchased in connection with funding employee tax withholding obligations arising from the vesting of nonvested shares and 6,493 mature shares from stock incentive plan participants to cover the strike price of options exercised in connection with a Stock Option Restoration Program (the "SORP"). In addition, nine newly issued shares from the SORP exercise were repurchased from the participants to cover their statutory minimum tax withholdings.

Item 6. Exhibits

10.1	Credit Agreement, dated October 5, 2009, by and among Waddell & Reed Financial, Inc., the Lenders, Bank of America, N.A. and Bank of America Securities LLC. Filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, File No. 333-43687, on October 7, 2009 and incorporated herein by reference.
31.1	Section 302 Certification of Chief Executive Officer
31.2	Section 302 Certification of Chief Financial Officer
32.1	Section 906 Certification of Chief Executive Officer
32.2	Section 906 Certification of Chief Financial Officer

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, this 27th day of October 2009.

WADDELL & REED FINANCIAL, INC.

By: /s/ Henry J. Herrmann
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Daniel P. Connealy
Senior Vice President
and Chief Financial Officer
(Principal Financial Officer)

By: /s/ Brent K. Bloss
Senior Vice President - Finance
and Treasurer
(Principal Accounting Officer)