UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

ADMINISTRATIVE PROCEEDING
File No. 3-12372

In the Matter of Waddell & Reed, Inc., Waddell & Reed Investment Management Company, and Waddell & Reed Services Company, Respondents.	:	PROPOSED PLAN OF DISTRIBUTION

1 Introduction

1.1 This Distribution Plan ("Distribution Plan") sets forth the methodology for allocating the Commission's previously established distribution fund ("Fair Fund") in this proceeding. The Distribution Plan seeks to distribute to accountholders, for the period spanning December 1998 through October 2003, a proportionate share of the fund as compensation for dilution losses they may have suffered as a result of market timing by fee-paying timers in the Waddell & Reed mutual fund complex ("W&R Funds") and advisory fees they may have paid during the relevant period. The Fair Fund is not intended to compensate accountholders for losses they incurred solely because of fluctuations in securities markets. The Distribution Plan is subject to approval by the Commission, and the Commission retains jurisdiction over the implementation of the Plan.

2 The Engagement

2.1 On July 24, 2006, the Securities and Exchange Commission ("Commission") issued an Order Instituting Administrative And Cease-and-Desist Proceedings Pursuant to Sections 15(b) and 17A(c) of the Securities Exchange Act of 1934, Sections 203(e) and 203(k) of the Investment Advisers Act of 1940 and Sections 9(b) and 9(f) of the Investment Company Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order") finding that, from December 1998 through October 2003, three accountholders (the "Fee Paying Timers") engaged in short-term trading of the W&R Funds harming those funds by diluting the returns of other investors.[1] In particular, the Order found that: (1) Respondent Waddell & Reed Investment Management Company ("W&R Investment Management") willfully violated Sections 206(1) and 206(2) of the Investment Advisers Act of 1940 ("Advisers Act") by

[1] *In the Matter of Waddell & Reed, Inc., et al.*, Exchange Act Release No. 54193 (July 24, 2006) (the "Order").

knowingly or recklessly failing to disclose to Waddell & Reed funds' boards of directors and shareholders the conflict of interest created when it allowed the Fee Paying Timers who paid asset-based fees to time certain Waddell & Reed funds in a manner that W&R Investment Management knew or had reason to believe would be harmful to shareholders in exchange for fees paid to Waddell & Reed Services Company ("W&R Services") and Waddell & Reed Inc. ("W&R") and when it allowed those timers to time the Waddell & Reed International Fund despite having been notified that Timers were harming the fund through dilution; (2) Respondents W&R and W&R Services willfully aided and abetted and caused W&R Investment Management's violations of Sections 206(1) and 206(2) of the Advisers Act by knowingly and substantially assisting W&R Investment Management's violations by negotiating timing agreements, from which they financially benefited, that caused W&R Investment Management to breach its fiduciary duty to the funds' boards and defraud the funds' shareholders; and (3) that each of the Respondents willfully violated Section 17(d) of the Investment Company Act of 1940 and Rule 17d-1 thereunder. The Respondents neither admitted nor denied any of the Commission's findings in the Order.[2]

2.2 The Order required Respondents, on a joint and several basis, to pay disgorgement of $40 million and a civil money penalty of $10 million and to establish a Fair Fund[3] in the total amount of $50 million pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002 for the distribution of disgorgement and penalties paid by the Respondent.

Pursuant to the Order, Respondents paid $50 million. This amount is currently being held by the United States Department of the Treasury, Bureau of Public Debt ("Treasury"), earning interest through investment in short-term U.S. Treasury securities. At the current time, the fund has an approximate value of $52 million.

2.3 The Order required Respondents to retain an Independent Distribution Consultant ("IDC") to develop a Plan of Distribution of the Fair Fund according to a methodology developed in consultation with the Respondents and acceptable to the staff of the Commission.

Pursuant to the Order, Respondents retained James C. Meehan, Vice President and head of the New York office of Cornerstone Research[4], as the IDC to develop a Distribution Plan for the distribution of the Fair Fund according to a methodology developed in

[2] Simultaneous with their settlement with the Commission, the Respondents settled related investigations by the New York Attorney General and the Securities Commissioner of the State of Kansas.

[3] *See* Section 308(a) of the Sarbanes Oxley Act of 2002.

[4] Mr. Meehan has analyzed issues relating to materiality, loss causation, and damages on a variety of securities class actions and other commercial litigation. He holds a B.S. in Mathematics from the Massachusetts Institute of Technology and an M.S. in Management from the MIT Sloan School of Management.

consultation with the Respondents and acceptable to the staff of the Commission and the independent trustees[5] of the affected W&R Funds.

2.4 It is the view of Mr. Meehan that the methodology described herein constitutes a fair and reasonable allocation of the Fair Fund in the context of the captioned matter.

3 Representations

3.1 To the best of his knowledge, Mr. Meehan has received full cooperation from the Respondents, including access to data and individuals as requested.

3.2 Several people have assisted Mr. Meehan in developing this Distribution Plan, including Daniel LaGattuta, Edward Yuan, Megan Rosseter and Edmund Rucci of Cornerstone Research, Professor D. Bruce Johnsen of the George Mason University School of Law, and Professor Jonathan Klick of the University of Pennsylvania School of Law. All work in this matter has been done under Mr. Meehan's direction.

3.3 Mr. Meehan has never been employed by the Respondents. Under the terms of the Order, Mr. Meehan agrees that, for the period of this engagement and for a period of two years from completion of this engagement, he will not enter into any employment, consultant, or other professional relationship with Respondents or "any of their present or former affiliates, directors, officers, employees, or agents acting in their capacity as such."

3.4 Pursuant to the terms of the Order, Professors Johnsen and Klick and Cornerstone Research and/or its representatives set forth above will not, without prior written consent of a majority of the independent trustees of the W&R Funds and the staff of the Commission, enter into any employment, consultant, attorney-client, auditing or other professional relationship with Respondents, or any of their present or former affiliates, trustees, directors, officers, employees, or agents acting in their capacity as such for the period of this engagement and for a period of two years after this engagement.

3.5 The conclusions Mr. Meehan has reached in this matter should be viewed as specific to this engagement and to the facts of this case, and may not apply elsewhere.

4 Background

4.1 Accountholders purchased shares in the W&R Funds through one of three distribution channels. Each distribution channel presents unique challenges to the Distribution Plan, and the manner of distribution to each channel is described herein.

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[5] At the time of the Order, the Waddell & Reed funds were organized under Maryland law, and therefore had independent directors. Since that time, the funds have become organized under Delaware law, so they no longer have independent directors, but instead have independent trustees. Therefore, whereas the Order referred to independent directors, this Distribution Plan refers to independent trustees.

4.1.1 Direct Purchase Holders – Certain purchasers bought their shares directly through W&R, the distributor for the W&R Funds, by submitting an application with payment to either a third party transfer agent or to W&R Services.

4.1.2 Holders in Omnibus Accounts – Other purchasers bought their shares through brokerage firms that functioned as the accountholder of record. Under this structure, the brokerage firm provided to the transfer agent, on a daily basis, customer transaction data concerning the number of shares purchased and sold by all customers on an aggregate basis. Specific information, such as a Tax Identification Number for each customer or account, was not provided.

4.1.3 Holders in Network Accounts – Other purchasers bought their shares through brokerage firms that, for each account, provided to the transfer agent a unique identifier and information concerning the number of shares each unique identifier purchased or sold. Specific information, such as name and address, was not provided.

4.2 Mr. Meehan sets forth below the methodology used to develop the plan for calculating and distributing the Fair Fund to accountholders in the W&R Funds during the relevant times.

5 Methodology Used to Develop Distribution Plan

5.1 The Distribution Plan is to "provide for investors to receive, from the monies available for distribution . . . , in order of priority, (i) their proportionate share of losses suffered by the fund due to market timing by the Fee Paying Timers, and (ii) a proportionate share of advisory fees paid by funds that suffered such losses during the period of such market timing."[6] This Distribution Plan relies on the findings in the Orders and the assumptions set forth above, and makes no independent assessment as to the legality of the market timing in W&R Funds. The methods of calculation of each eligible investor's share of the Fair Fund are intended to result in a payment to each eligible investor that restores the impaired value of the investor's investment in the harmed funds resulting from the Respondents' conduct described in the Order. Some of this impaired value is susceptible to calculation, while some of this impaired value is not. The methods of calculation are intended by the IDC to fairly estimate the impaired value that each investor has suffered and make a payment in that amount. The Fair Fund is not intended to compensate investors for losses they incurred because of fluctuations in securities markets that were unrelated to Respondents' conduct, as set forth in the Order.

5.2 The plan is designed to allocate the Fair Fund among the accountholders who held shares in the Accumulative, Continental Income, Core Investment, International Growth, New Concepts, Science & Technology, Small Cap, Value, and Vanguard funds from December 1, 1998 through October 31, 2003 except those accountholders referenced in ¶6.4 and, to the extent appropriate, to the affected funds.

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[6] Order at ¶ 50.

5.3 Fee Paying Market Timers

5.3.1 As set forth in the Order, three entities paid special asset-based fees to W&R Services and/or W&R and were permitted to market time certain funds in the Waddell & Reed mutual fund complex.

5.3.2 W&R provided Mr. Meehan with a database that contained all Fee Paying Timer trades independently compiled by LECG, LLC ("LECG") in connection with W&R's settlement discussions with the Commission as well as additional files requested by Cornerstone that were needed to complete this analysis. Mr. Meehan independently assessed the reliability of the LECG data.

5.3.3 In examining this data, Mr. Meehan matched purchases and sales of mutual fund shares. This was necessary in order to calculate the profits made by the Fee Paying Timers during the period that their respective agreements were in effect.[7] In order to do this, a First-In First-Out ("FIFO") methodology was used to determine when a particular share was bought and sold. When shares could not be matched with a buy or a sell, they were not included in the dilution estimation. The matched trades represented over 98% of the volume traded by the Fee Paying Timers during the time period examined.

5.3.4 Mr. Meehan analyzed the numbers of days with matched trades made by the Fee Paying Timers and the dollar volume of those trades by these timers subsequent to their respective fee timing agreements with W&R through October 2003. Tables 1, 2 and 3 provide a summary of the Fee Paying Timers' trading activity.

5.4 Estimating Dilution Losses Associated with Trading by Market Timers

5.4.1 To estimate the dilution losses incurred by accountholders in W&R Funds resulting from transactions by the Fee Paying Timers, Mr. Meehan estimated the dilution caused by the Fee Paying Timers in each of the W&R Funds during the period subsequent to their respective agreement with W&R through October 2003.

5.4.2 Timer activity does not always harm other accountholders. Sometimes the market moved in the opposite direction than timers anticipated. For reasons explained below, this would have caused timer trades to be accretive (benefiting accountholders) rather than dilutive. The sum of the accretive and dilutive effects for every day each accountholder is in an affected fund determines the total net dilution or accretion for that accountholder.

[7] The Fee Paying Timer agreements were signed on December 11, 1998, February 21, 2001, and May 14, 2002. The W&R Funds examined in this report are the Accumulative, Continental Income, Core Investments, International Growth, New Concepts, Science and Technology, Small Cap, Value, and Vanguard Funds.

5.5 Alternative Dilution Approaches

5.5.1 The amount of dilution losses associated with market timing is related to how the fund manager invests the cash flows provided by market timers and the movements of the market. For example, if the fund manager fully invests the net cash flows of a frequent trader in equity securities and/or equity derivatives the day after a frequent trader invests in the fund, and liquidates the equity investment the day after the frequent trader exits the fund, then the "next day NAV" approach is an appropriate way to estimate dilution losses associated with market timing (e.g., see Green and Hodges (2000)). Under this approach, dilution losses are equal to the sum of the frequent trader's first day profits and avoided loss on the day he exits the fund.[8]

5.5.2 Alternatively, in Mr. Meehan's opinion, if the fund manager holds all of the frequent trader's net cash flows as cash (i.e., if he does not invest any of the frequent trader's cash flows in equity securities), then the "realized profits" approach is an appropriate way to estimate dilution losses associated with market timing.[9] Under the realized profits approach, dilution losses are equal to the frequent trader's holding period profits.[10]

5.5.3 A third possibility is that the fund manager invests some of the frequent trader's net cash flows in equity securities over the day following the trade and holds the remainder in cash. In this case, dilution losses lie in between the dilution losses estimated under the next day NAV approach and the realized profits approach.

5.5.4 A fourth possibility is that there is some investment of timer funds in equities but over a several day period of time.

5.6 Empirical Analysis of How W&R Fund Portfolio Managers Invested Cash Flows from Market Timers

5.6.1 To estimate how the W&R Fund portfolio managers invested the net cash flows invested in the funds by market timers, Mr. Meehan estimated an ordinary least squares regression of the daily net equity purchases for each Fee Paying Timer in each W&R Fund where that timer had over $500 million of trading activity.[11] For each fund/timer combination, he regressed daily net equity purchases on two groups of independent variables: (i) net cash flows invested by the respective

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8 There could be an accretive effect if either the NAV declines the day after a frequent trader invests in the fund or the NAV rises the day after a frequent trader exits the fund. Mr. Meehan calculated both accretion and dilution losses in determining total dilution.

9 As a simplifying assumption, the cash held by the fund manager is assumed not to earn interest.

10 There could be an accretive effect under this approach if the frequent trader experiences a loss over the holding period. As with the next day NAV approach, Mr. Meehan calculated both short-term profits and losses in determining total dilution.

11 The $500 million cutoff was used because when there is too little timer trading activity, regressions using timer cash flows will not yield meaningful results.

timer and (ii) net cash flows invested by other accounts. These variables were lagged for each of 10 days prior to the net equity purchases to try to capture any investment by the portfolio manager of timer cash that takes place over the 10 days following the trade.

5.6.2 Table 4 reports the results from estimation of the regression models for the six funds where Timer 1 made more than $500 million of trades. Table 5 reports the results from estimation of the regression models for the two funds where Timer 2 made more than $500 million of trades. In these regressions, Mr. Meehan tested whether the sum of the coefficients on the lagged timer cash flows is statistically significantly different from zero using a partial-F test. The purpose of this test is to see whether there is any statistical evidence that some timer money was invested by the portfolio manager in a W&R fund. Only two fund/timer combinations showed statistically significant results at the 5% level. These regressions were for the Timer 1 trading activity in the W&R International Growth and W&R New Concepts Funds.

5.6.3 Various stress tests were performed to test the robustness of these results, including breaking the time period into an earlier and later period and running the regression separately for each lagged cash flow. Breaking the timing period into two periods was done only on the Timer 1 trades, since the other Fee Paying Timers did not sign agreements with W&R until 2001 or 2002. The end of the first quarter 2000 was used as a breakpoint since that also coincided with the end of the bull market in equities. Only the W&R Vanguard Fund showed very different results for the two periods. In the early period, a partial-F test showed that some timer cash may have been invested in the underlying assets of the fund, while during the second period there was no statistically significant relationship between timer transactions and portfolio manager decisions. For the remaining fund/timer combinations the results do not allow one to reject the null hypothesis that the portfolio managers of the nine funds held the market timers' cash flows as cash (i.e., they did not invest any of the market timers' cash flows in equity securities and/or equity derivatives).[12]

5.6.4 The results from the empirical analysis reported in Table 4 and Table 5 are consistent with Mr. Meehan's review of the deposition of the fund manager for the W&R International Growth Fund.

5.6.5 In addition, Mr. Meehan looked at the average holding period of timer positions in the affected funds. These results are in Table 6. Generally, all the Fee Paying Timers held their positions in W&R Funds for short periods of time. As can be seen, Timer 1 held positions longer than the other Fee Paying Timers. This is

[12] Mr. Meehan examined data on the daily security holdings of the three W&R Funds that account for almost all of the estimated dilution losses (International Growth, Accumulative and Science & Technology) during the period of December 1998 through October 2003. He found no evidence that the funds "equitized" their portfolios by investing in equity derivatives.

consistent with the regression results that only Timer 1's investments may have been invested by the W&R fund portfolio manager.

5.6.6 Based on the regression results reported in Table 4 and Table 5 (as well as the fund/timer combinations with insufficient data to perform regressions), review of the portfolio manager's deposition, and examination of the average holding period of timer positions, it is Mr. Meehan's opinion that the realized profits approach is the appropriate way to estimate the dilution losses associated with (i) all the Fee Paying Timers other than Timer 1 and (ii) Timer 1 for the following W&R Funds: Accumulative, Continental Income, Core, Science & Technology, Small Cap, Value and Vanguard after Q1 2000. However, for Timer 1 trading activity for the W&R Vanguard Fund prior to the end of Q1 2000, the W&R International Growth Fund, and the W&R New Concepts Fund, an approach that invests some portion of timer funds into the underlying equities over several days is the appropriate way to estimate the dilution losses. The coefficients from the regressions for those fund/timer combinations are used to determine what fraction of a timer's funds are invested each day in the underlying assets of the fund.

5.7 Total Dilution by Fee Paying Market Timers

5.7.1 To arrive at the total dilution experienced by accountholders of each fund on each day over this period, Mr. Meehan estimated the total dilution caused by fee paying market timers in each W&R Fund on each day during the period December 1, 1998 through October 31, 2003. For reasons described in the previous section, he used the realized profits approach to estimate the total excess short-term profits earned by fee paying market timers for certain W&R Funds and timers, and he used a hybrid approach for some of the W&R Funds that Timer 1 traded.

5.7.2 The dilution is calculated on a daily basis for each fund. To illustrate how the dilution losses associated with market timing vary over time, Table 7 shows the total dilution caused by the Fee Paying Timers in each W&R Fund in each quarter from the fourth quarter of 1998 through the fourth quarter of 2003.[13] The Table shows that fee paying market timers caused total dilution (including interest) of $18.5 million in all W&R Funds during the period. The total includes dilution (accretion) of approximately ($487 thousand) in 1998, $16.4 million in 1999, $10.1 million in 2000, ($2.5 million) in 2001, ($4.9 million) in 2002, and ($129 thousand) in 2003.

5.7.3 The dilution caused by the Fee Paying Timers, and incurred by accountholders in W&R Funds, is highly concentrated in three quarters: Q2 1999, Q4 1999 and Q1 2000. These three quarters account for approximately $21.6 million, or 117% of

[13] Mr. Meehan adjusted the dilution amounts to account for the time value of the dilution prior to the Commission's Order. For his calculation, Mr. Meehan applied the short-term Applicable Federal Rate used by the IRS (Section 1274 of the Internal Revenue Code). The adjusted dilution by a fund in a particular quarter was calculated by cumulative application of the IRS monthly interest rates starting from the quarter when dilution occurred and ending October 2003.

the total dilution. The reason this number exceeds total dilution is that in many of the other quarters there is significant accretion to the W&R accountholders.

5.7.4 Table 7 also shows dilution is highly concentrated in three W&R Funds. The W&R International Growth Fund accounts for $20.1 million, or 108% of the net dilution, followed by the W&R Science & Technology Fund for $2.7 million, or 15% of the net dilution, and the W&R Accumulative Fund for $1.8 million or 10% of the net dilution. Together, the three funds account for approximately $24.6 million, or 133% of the total dilution. All the other funds were net accretive to W&R accountholders.

6 Allocation of the Fair Fund

6.1 Under the Distribution Plan, accountholders of each W&R Fund, including Direct Purchase Holders, Holders in Omnibus Accounts, and Holders in Network Accounts, will receive a prorated share of their W&R Funds' settlement proceeds based upon individual accountholders proportionate share of the total dilution calculated by the IDC. "Total Dilution" is the sum of all the net dilution from the accountholders with positive net dilution as of October 31, 2003. Funds paid to accountholders in excess of their individual dilution amounts will be deemed to constitute a proportionate share of advisory fees paid by funds that suffered such losses during the period of such market timing.[14]

6.2 The dilution (or accretion) that affects each accountholder is calculated each day the accountholder held one of the affected funds. For example, suppose an accountholder owned 0.1% of the International Growth Fund on a day when International Growth Fund accountholders experienced $1 million of dilution (accretion) from the market timing activity of the Fee Paying Timers. Under the Distribution Plan, the accountholder would have suffered $1,000 of dilution (accretion) losses (gains) associated with market timing in the International Growth Fund on this day (i.e., 0.001 times $1 million).

6.3 The net dilution (or accretion) for each accountholder is calculated by aggregating within each fund all the dilution and accretion for all days that the accountholders held each affected fund. The accountholders with net dilution will be compensated through the Distribution Plan. Some accountholders will have net accretion, which means they benefited from the timing activity of the Fee Paying Timers. Since these accountholders benefited by the actions of the Fee Paying Timers, they will not receive compensation under the Distribution Plan.

6.4 The Fee Paying Timers are excluded from the Distribution Plan. Also, Respondents will not be eligible for a distribution under the Distribution Plan. In addition, prior to commencement of any distribution under this Plan, the IDC shall inquire of Respondents and the staff of the Commission which, if any, of the investors potentially eligible to

[14] Total fund advisory fees paid during the period significantly exceeded the remainder of the Fair Fund after subtracting Total Dilution adjusted for interest.

receive a distribution under this Plan are persons who have either (a) been found in a final and non-appealable order of a court or regulatory body of competent jurisdiction to have engaged in unlawful behavior affecting the affected mutual funds during the relevant period, (b) entered into a settlement of any proceeding before a court or regulatory body in which such unlawful behavior has been alleged, unless the IDC determines that the settlement should not be deemed an admission of such unlawful behavior, or (c) admitted in writing to such behavior. Based upon any information provided in response to such inquiries, the IDC shall determine which if any of such investors will be disqualified from participation in this Plan. In making any such determination, the IDC may rely on documents and other information provided by Respondents, the Commission, or courts of competent jurisdiction. Any investor disqualified from participation in this Plan shall receive a notice in substantially the form attached as Exhibit A from the IDC or the Fund Administrator. A disqualified investor shall not receive any portion of the Fair Fund on behalf of those accounts that are associated with activities that result in such disqualification, and any distribution that would otherwise have been payable to a disqualified investor shall be added to the Fair Fund residual.

6.5 Any monies not distributed to individual accountholders may be disbursed in an appropriate amount to the timed W&R Funds based on the proportion of Total Dilution attributed to each W&R Fund. For example, suppose approximately $5 million of the Fair Fund remains after disbursements to accountholders (including both individual and omnibus accounts). Also, suppose that 80% of the Total Dilution was due to timing activity in the W&R International Growth Fund. Then approximately $4 million (i.e., approximately $5 million times 80%) could be paid to the W&R International Growth Fund. If the IDC concludes that sufficient funds do not remain to economically justify a disbursement from the residual funds, those funds may be added to the residual account to be paid to the U.S. Treasury in accordance with ¶¶ 6.7 and 7.17.

6.6 If any Fund has been or shall be merged into or transfers substantially all of its assets to a successor fund prior to the distribution under this paragraph, its portion of the distribution shall be paid to the successor entity of such merger or asset transfer. If any Fund has been or shall be liquidated prior to such distribution under this paragraph, its portion of the distribution funds shall be paid pro rata to the remaining Funds (or successors) based on each Fund’s proportion of aggregate excess profits by market timers accounted for by each remaining W&R Fund. These distributions will be recorded and distributed to the respective funds without any advance public disclosure to minimize the possibility of any market timing with respect to the funds as a result of these payments.

6.7 Any residual funds remaining after the conclusion of the Fair Fund’s disbursements to accountholders and any disbursements to the W&R Funds will be transferred to the U.S. Treasury following the Commission’s approval of the Administrator’s final accounting and the termination of the Fair Fund.

7 Distribution of the Fair Fund

7.1 Rules and Procedures for the Distribution Process

7.1.1 The monies to be distributed under this Plan are not being distributed according to a claims-made process, so the procedures for providing notice and for making and approving claims are not applicable.

7.1.2 Each accountholder with positive net dilution within a fund above a minimum threshold will receive a prorated share of the settlement that is a multiple of their aggregate net dilution within that fund. A multiple is chosen such that the sum of settlement proceeds of all accountholders who should receive at least $25 based on their net dilution times the multiple is equal to the total value of the Fair Fund. Only accountholders with an aggregate prorated share within a fund of at least $25 across all quarters are eligible to receive a distribution from the Fair Fund based on the IDC's conclusion that it would not be cost effective to attempt to distribute amounts of less than $25 to individual accounts.

7.1.3 Both current and former shareholders are eligible to receive payments

7.1.4 Shareholders will not have to pay fees to receive their distribution.

7.2 Fund Administrator. Mr. Meehan proposes that Rust Consulting, Inc. ("Rust") serve as Fund Administrator pursuant to Rule 1105 of the Commission's Rules of Practice, 17 C.F.R. §201.1105 (the "Fund Administrator"). The Respondents will provide all the information that Rust requires in order to administer the Plan.

7.2.1 Rust, founded in 1976, specializes in claims administration and the development and implementation of plans for the distribution of settlement funds, and has administered more than 1,500 cases worth billions of dollars with class sizes ranging from 80 class members to more than 100 million. Rust has never had any occurrence of employee or vendor problems or claims against its Errors & Omissions insurance due to employee theft or dishonesty. Over the past three years alone, Rust has distributed approximately $1.8 billion in settlement disbursements to approximately 9.6 million recipients without incident. Rust typically oversees the check printing process and relies on a third party check-printing vendor. Rust will be compensated for its time and expenses by the Respondents in accordance with the terms set forth in the Order.

7.2.2 Under the supervision of Mr. Meehan, Rust will perform the duties and obligations set forth herein, including overseeing the administration of the Fair Fund; establishing bank accounts; processing payments; arranging for and overseeing the issuance of checks; obtaining accurate mailing information for shareholders; attempting to locate shareholders; assisting Omnibus Accountholders to facilitate their calculations and distributions; cooperating with the tax administrator in providing the information necessary to accomplish the income tax compliance; setting up and staffing a call center to address shareholder questions or concerns regarding the distribution; distributing funds from the Fair Fund to accountholders in accordance with the Distribution Plan; preparing and submitting to the Commission in accordance with Rule 1105(f) periodic accountings of all monies earned or received and all monies spent in connection with the administration of the Distribution Plan; and, with Mr. Meehan, submitting a final accounting for approval by the Commission.

7.3 Limitation on Liability. The IDC and the Fund Administrator, and/or each of their designees, agents and assistants, shall be entitled to rely on any Orders issued in this proceeding by the Commission, the Secretary by delegated authority, or an Administrative Law Judge, and may not be held liable to any person other than the Commission or the Fair Fund for any act or omission in the course of administering the Distribution Fund, except upon a finding in this proceeding that such act or omission is caused by such party's gross negligence, bad faith or willful misconduct, reckless disregard of duty, or reckless failure to comply with the terms of the Distribution Plan. This paragraph is an expression of the current state of the law and is not intended, nor should it be deemed to be, a representation to or an indemnification of the IDC, Fund Administrator, or its designees, agents and assigns, nor should this paragraph preclude the Commission or the Qualified Settlement Fund ("QSF") from seeking redress for any act or omission in the course of administering the Fair Fund or from seeking redress from any insurance or bond provided as set forth in this Distribution Plan in accordance with the rules and regulations of the Commission.

7.4 Custody of the Fair Fund and Other Security Issues.

7.4.1 The Fair Fund constitutes a Qualified Settlement Fund ("QSF") under Section 468B(g) of the Internal Revenue Code, 26 U.S.C. §468B(g), and related regulations, 26 C.F.R. §§1.468B-1 through 1.468B-5.

7.4.2 As set forth above, ¶2.2, the Fair Fund is currently deposited at the U.S. Treasury Bureau of Public Debt ("BPD") for investment in government obligations. Other than interest from investments, it is not anticipated that the Fair Fund will receive additional funds.

7.4.3 The Commission has custody of the Fair Fund and shall retain control of the assets of the Fair Fund. Upon approval of the Plan of Distribution, the Fund Administrator shall establish an account at Deutsche Bank, in the name of and bearing the Taxpayer Identification Number of the QSF. Following approval of the Plan of Distribution, and submission by the IDC of a list of payees and amounts to the Commission staff, and unless otherwise directed by the Commission, the Commission staff shall cause the balance in the Fair Fund to be deposited in an account established by the Fund Administrator in the name of and bearing the Taxpayer Identification Number of the QSF. The Fund Administrator shall be the signer on the QSF account, subject to the continuing jurisdiction and control of the Commission. The Fund Administrator shall authorize Deutsche Bank to provide account information to the Tax Administrator. The Fund Administrator shall use the assets and earnings of the Fair Fund to provide payments to investors and to provide the Tax Administrator with assets to pay tax liabilities and tax compliance fees and costs. The QSF account shall be invested in direct obligations of the United States Government of a type and term necessary to meet the cash requirements of the payments to investors, tax obligations and fees.

7.4.4 In order to distribute funds, the IDC will submit a validated list of payees and the payment amounts to the assigned Commission staff, who will obtain authorization from the Commission to disburse pursuant to Rule 1101(b)(6). The payees and amounts will be validated at the IDC's direction by Rust. The validation will state that the list was compiled in accordance with the Plan and provides all information necessary to make disbursement to each distributee. Unless otherwise directed by the Commission, the Commission staff will direct the release of funds to the bank account established by the Fund Administrator based upon the validated list and representation by the Fund Administrator that the checks or electronic transfers will be issued within the next 5 business days.

7.4.5 Upon approval of the Distribution Plan by the Commission, the IDC, Rust, and the Escrow Bank (the "Bank") (i.e., Deutsche Bank or such other bank as shall be selected by the IDC and determined to be acceptable by the staff of the Commission) shall establish one or more escrow accounts in the name of and bearing the Taxpayer Identification Number of the Fair Fund (the "Escrow Account"). The escrow agreement (the "Escrow Agreement") must be acceptable to the Commission staff and shall provide that the escrowed funds be (i) invested as soon as reasonably possible in direct obligations of the United States Government and (ii) distributed only in accordance with the validated payee list described below, ¶7.5.1, except as provided herein with respect to taxes. Any and all taxes payable on account of income earned by the money in the Escrow Account shall be timely paid from funds in the Escrow Account, and the escrow agent is expressly authorized and directed to work with the IDC, Rust, and the Tax Administrator (defined below, ¶7.13.1) to make such payments.

7.4.5.1 Deutsche Bank maintains a Financial Institutions (FI) Bond, including errors and omissions coverage with an aggregate limit of 125 million Euros. The primary insurer is a company which, as of its most recent renewal, was rated A+ by A.M. Best. The Bank annually assesses the adequacy of its policy limits through extensive analysis of historic loss data, exposure to loss and internal company controls. The Bank's limits are reviewed annually by the Bank's Board of Directors.

7.4.5.2 Deutsche Bank will hold Fair Fund assets during the check-cashing period and require use of a positive payment system. Once the Fair Fund assets are transferred from the Treasury to the Bank, they shall be placed in an escrow account which shall invest and reinvest the escrow property in short-term U.S. Treasury securities and obligations, all backed by the full faith and credit of the U.S. Government; provided however, that investments in short-term U.S. Treasury securities will not be made through repurchase agreements or other derivative products. When checks are presented for payment by recipients of the distribution, and validated by the Fund Administrator, the exact amount necessary to pay such presented checks shall be transferred from the escrow account into a distribution account bearing the name and taxpayer identification number of the Fair Fund, and validated presented checks shall be paid from this distribution account. For any payment to be made by wire instruction, the appropriate funds will be distributed by the escrow agent from the escrow account directly to the payee in accordance with written instructions provided to the escrow agent by the Fund Administrator.

7.4.5.3 Rust shall be the signer on the Distribution Account, supervised by Mr. Meehan and subject to the continuing jurisdiction and control of the Commission. Rust shall authorize the Bank to provide information on the Escrow Account and the Distribution Account to the Tax Administrator. Under the supervision of the IDC, and at the direction of Rust, the Bank shall use the assets and earnings of the Fair Fund to provide payments to eligible accountholders and to provide the Tax Administrator (defined below, ¶7.13.1) with assets to pay, as appropriate, tax liabilities and tax compliance fees and costs. The Escrow Account shall be invested in AAA-rated Money Market Mutual Funds further described above, ¶7.4.5.2, of a type and term necessary to meet the cash requirements of the payments to eligible accountholders, tax obligations, and fees.

7.4.5.4 Pursuant to the Order, the IDC has developed the Distribution Plan, and the escrow agent has provided to the IDC an attestation that all funds in the Escrow Account will be held for the Distribution Plan and that the escrow agent will not, directly or indirectly, place any lien or encumbrance of any kind upon the funds. All interest earned on the monies will inure to the benefit of accountholders except as otherwise provided in the Orders or herein. Upon the Bank's receipt of funds from the Treasury, the Bank shall promptly deposit the funds into the Escrow Account.

7.4.5.5 The IDC recommends that the bond requirement for the Fund Administrator be waived for good cause shown, pursuant to Rule 1105(c) of the Commission's Rules of Practice, 17 C.F.R. §201.1105(c). In lieu of bond, the Fund Administrator maintains and will continue to maintain insurance through Illinois Union Insurance Company until termination of the Fair Fund. The primary insurer is a company which, as of its most recent renewal, was rated ("A+ r XV") by A.M. Best. The Fund Administrator maintains and will continue to maintain until termination of the Fair Fund, Errors & Omissions insurance in the amount of $10,000,000. It has a policy limit of $10,000,000 per occurrence and an overall limit of $10,000,000 during the life of the policy. The Fund Administrator also maintains an additional $10,000,000 in excess Errors & Omissions insurance. In addition, the Fund Administrator maintains a crime policy in the amount of

$5,000,000 per occurrence, which provides protection against employee dishonesty, forgery or fraudulent alteration of securities, and electronic and computer crime exposures, which include losses due to transfer, payment or delivery of funds as a result of fraudulent input, preparation or modification of computer instructions, data or fraudulent electronic transmissions or communications. Under this Distribution Plan, at no time will there be funds under the custody and control of the Fund Administrator. These policies have been provided to the Commission staff for review and have been deemed "not unacceptable."

7.4.5.6 Because the (1) the Fund Administrator will have no custody, and only limited control, of the Fair Fund; (2) the Fair Fund will be held by Treasury until immediately before transmittal of checks or electronic transfers to eligible investors; (3) upon transfer from Treasury, funds will be held in an Escrow Account, separate from the Bank's assets, until presentation of a check or electronic transfer, at which time funds will be transferred to a controlled distribution account; (4) presented checks or electronic transfers will be subject to "positive pay" controls before honored by the Bank; and (5) both the Bank and the Fund Administrator will maintain, throughout this process, insurance and/or a financial institution bond (unless otherwise waived) that covers errors and omissions, misfeasance, and fraud, the IDC proposes that the requirement that a bond be posted pursuant to Rule 1105(c) be waived by the Commission for good cause shown.

7.5 <u>Additional Distribution Controls</u>. Following approval of the Distribution Plan, and in order to maximize the security of the Fair Fund, the following procedures will be followed in connection with the Fair Fund:

7.5.1 In order to distribute funds, the IDC will submit a validated list of payees and the payment amounts to the assigned Commission staff, who will obtain authorization from the Commission to disburse pursuant to Rule 1101(b)(6). The payees and amounts will be validated at the IDC's direction. The validation will state that the list was compiled in accordance with the Plan and provides all information necessary to make disbursement to each distributee. Unless otherwise directed by the Commission, the Commission staff will obtain an Order Directing Disbursement that releases funds to the bank account established by the Fund Administrator based upon the validated list and representation by the Fund Administrator that the checks or electronic transfers will be issued within the next 5 business days.

7.5.2 Upon presentation of an outstanding check, and subject to the controls set forth below, the exact amount needed to satisfy the presented obligation will be transferred from the Escrow Account to the Distribution Account and immediately paid out. As stated in ¶7.4.5.2, for any payment to be made by wire instruction, funds will be distributed by the escrow agent from the Escrow Account in accordance with written instructions provided to the escrow agent by parties authorized by the Escrow Agreement.

7.5.3 The Positive Pay system for clearing checks at the bank will be used to control distributions from the Distribution Account, requiring, among other things, confirmation by the Bank that all checks presented for payment match the identifiers and amounts on the positive pay file prior to payment of the presented obligation.

7.5.4 Upon the Bank's receipt of a wire instruction, and subject to the controls set forth below, the exact amount needed to satisfy the presented obligation will be paid by the escrow agent from the Escrow Account in accordance with the wire instruction.

7.5.5 Upon the Bank's receipt of a wire instruction, the Bank will take the following steps before the escrow agent will release any funds from the Escrow Account:

7.5.5.1 An administrative employee of the Bank will:

7.5.5.1.1 Check that the signatures on the wire instruction are those of the persons authorized to issue wire instructions in the Escrow Agreement and that the wire instruction is otherwise complete and in accordance with the Escrow Agreement; and

7.5.5.1.2 Input the wire instructions into the computer system of the Bank.

7.5.5.2 A Bank officer will compare the wire instruction entered by the administrative employee into the Bank computer system with the original wire instruction prior to approving the wire instruction for execution by the escrow agent.

7.5.5.3 Upon the Bank officer's approval of the wire instruction for execution, the escrow agent will release the exact amount needed to satisfy the presented wire transfer in accordance with the wire instruction.

7.6 Oversight. Rust will work with Mr. Meehan in administering this Distribution Plan. Rust will keep Mr. Meehan informed as to work on this engagement.

7.7 Procedures for Identifying and Distributing to Eligible Accountholders. Rust will identify and make distributions to eligible accountholders in several ways, depending on the distribution channel through which the accountholder purchased the shares. The manner in which the accountholders will be identified and paid is as follows:

7.7.1 Direct Purchase Holders: The Fund Administrator shall use commercially reasonable efforts to identify and locate current and former shareholders of record: Shareholder addresses will be systematically compared against the U.S. Postal Service's forwarding address database.

7.7.2 The Fund Administrator shall issue and mail checks to all identified and located Direct Account shareholders whose aggregate distribution meets the *de minimis* level of $25.

7.7.2.1 All checks shall bear a stale date of 90 days from the date of issuance. Checks that are not negotiated within the stale date shall be voided and Deutsche Bank shall be instructed to stop payment on those checks. Following the completion of efforts to locate or contact investors who fail to negotiate Fair Fund payments, amounts that have not been negotiated will become part of the Fair Fund residual, which may be disbursed to the timed W&R Funds, or which may be paid to the U.S. Treasury in accordance with ¶¶ 6.7 and 7.17.

7.7.2.2 Electronic credits will be made only to cash equivalent accounts (e.g., money market accounts).

7.7.3 Holders in Omnibus Accounts: The intent of this Plan is to distribute funds through intermediated accounts to ultimate investors, as if they had been Direct Account shareholders. Omnibus Accounts include accounts maintained for multiple beneficial owners (typically individual brokerage customers), but for the purpose of this report do not include qualified retirement plan accounts. Under the supervision of Mr. Meehan, Rust will identify and determine the Distribution Amount for these accountholders as follows:

7.7.3.1 Rust will use transfer agent records and other Respondent resources to identify “Omnibus Accounts.”

7.7.3.2 Rust will, in accordance with the Distribution Plan, determine “net” shares held in each Omnibus Account on a daily basis.

7.7.3.3 Under the supervision of Mr. Meehan, Rust will calculate the total amount due to each Omnibus Account using the methodology set forth in the Distribution Plan.

7.7.3.4 If the aggregate amount due to the Omnibus Account is less than $1,000, it will be considered a *de minimis* amount.

7.7.3.5 With respect to any single Omnibus Account that is due to receive at least $1,000 but less than $10,000, the Omnibus Account may elect either (i) to distribute the Omnibus Account’s amount due to its beneficial owners (or otherwise apply the Omnibus Account’s amount due for the benefit of its beneficial owners) in a manner that the Omnibus Account determines to be appropriate and consistent with its legal obligation to the beneficial owners or (ii) elect Option 1, as set forth below. This election must be made in writing, postmarked within 30 days of the date that the letter describing these options was mailed to the Omnibus Account. Any such Omnibus Account that fails to respond within this deadline will be deemed to have elected to distribute the Omnibus Account's amount due to its beneficial owners (or otherwise apply the Omnibus Account's amount due for the benefit of its beneficial owners) in a manner that the Omnibus Account determines to be appropriate and consistent with its legal obligation to the beneficial owners.

7.7.3.6 Omnibus Accounts that are due to receive $10,000 or more will have three options with respect to administering the Plan:

Option 1: The Fund Administrator will calculate payments to beneficial owners and execute the distributions, based on account data and address files provided by the holder of record.

The shareholder of record may provide the necessary data to the Fund Administrator to calculate payments to beneficial owners. The Respondent will reimburse the reasonable out of pocket costs incurred by the omnibus shareholder of record in conjunction with preparing the data that would enable the Fund Administrator to calculate the payments and execute the distribution.

Beneficial owner addresses will be systematically compared against the U.S. Postal Service's forwarding address database.

Option 2: The Fund Administrator will calculate the payments to beneficial owners, based on account data files provided by the holder of record, but the holder of record will execute the distributions.

The shareholder of record will provide the necessary data to the Fund Administrator to calculate payments to beneficial owners. The Respondent shall reimburse the reasonable out of pocket costs incurred by the omnibus shareholder of record in conjunction with preparing the data that would enable the Fund Administrator to calculate the payments. The Fund Administrator will issue a single payment to the shareholder of record for the total amount to be distributed. The shareholder of record will bear the costs of executing the distribution to beneficial investors.

Option 3: The Fund Administrator will provide the algorithm for calculating the individual payments to the holder of record, but the holder of record will both calculate the payments to beneficial owners and execute the distributions to beneficial owners.

The Fund Administrator shall issue a single payment to the shareholder of record for the total amount to be distributed. The shareholder of record will bear all costs of the calculation and the distribution.

7.7.3.7 Each Omnibus Account which has an aggregate amount due of $10,000 or more for that single Omnibus Account must elect Option 1, Option 2, or Option 3 by making such election in writing, postmarked within 30 days of the date that the letter describing these options was mailed to the Omnibus Account. Any such Omnibus Account that fails to respond within this deadline will be deemed to have elected Option 3.

7.7.3.8 Whether the funds are distributed by the Fund Administrator (under Option l), jointly (under Option 2), or wholly by the Omnibus Account holder of record (Option 3), the procedures to be employed should be substantially the same as those employed for Direct Accounts, except as described below:

1) The Omnibus Account holder of record will be required to develop and execute a program similar to that described for Direct Accounts, including a *de minimis* amount no larger than $25 for the beneficial investor.

2) For current accounts, the Omnibus Account holder of record has the option to write a check or to credit the account of the beneficial owner.

3) If a Omnibus Account holder of record is unable to identify a beneficial shareholder after receipt of the payment from the Fund Administrator, such beneficial shareholder's payment shall be returned to the Fund Administrator and will be added to the Fair Fund residual, which may be disbursed to the timed W&R Funds, or which may be paid to the U.S. Treasury in accordance with ¶¶ 6.7 and 7.17.

4) In the course of calculating payments in the distribution phase of this Plan, the Fund Administrator or shareholders of record of Omnibus Accounts may determine that payments due to an Omnibus Account's beneficial investors may differ from the amounts calculated pursuant to Section III.1 of this Plan. If the Fund Administrator’s payment to an omnibus shareholder of record exceeds the payments due to beneficial shareholders (e.g., there are beneficial shareholders who fail to meet the Direct Account investor *de minimis* threshold of $25), the excess will be added to the Fair Fund residual, which may be disbursed to the timed W&R Funds, or which may be paid to the U.S. Treasury in accordance with ¶¶ 6.7 and 7.17. If the Fund Administrator’s payment to a shareholder of record is less than the payments to a plan's beneficial shareholders that exceed the *de minimis* levels (e.g., due to netting at the Omnibus Account level that obscured

damages due to ultimate shareholders), the amount distributed to those beneficial shareholders will be proportional to the funds actually received by the shareholder of record.

7.7.3.9 Shareholders of record of Omnibus Accounts who seek to alter any of the procedures described herein above may apply to do so in writing to the IDC within 90 days of receiving notice from the Fund Administrator. Any such application should explain (a) the alteration in procedure they plan to employ and (b) the reasons for this request. The IDC will rule on these requests within 90 days of their receipt, but may request additional information from the provider. If the IDC determines that the proposal would not materially affect the distribution of funds to the ultimate shareholders, the proposal will be accepted. Otherwise, the monies that would have otherwise been paid to the Omnibus Account will be added to the Fair Fund residual, which may be disbursed to the timed W&R Funds, or which may be paid to the U.S. Treasury in accordance with ¶¶ 6.7 and 7.17.

7.7.4 <u>Holders in Network Accounts:</u> Under the supervision of Mr. Meehan, Rust will determine the Distribution Amount for these accountholders as follows:

7.7.4.1 Rust will use transfer agent records and other Respondent resources to identify "Network Accounts."

7.7.4.2 Rust will, in accordance with the Distribution Plan, determine "net" shares held in the Network Accounts on a daily basis.

7.7.4.3 Rust will, in accordance with the Distribution Plan, calculate the total amount due to the Network Accounts using the methodology set forth above.

7.7.4.4 If the aggregate amount due to the Network Account is less than $25, it will be considered a *de minimis* amount.

7.7.4.5 Rust will engage in an "Outreach Process" by which Rust will contact each "Network Firm" and request individual accountholder identification information. The individual accountholder name and address, as well as the Tax Identification Number, typically the individual's Social Security Number, will be requested for each of these accounts. This information will be requested from the Network Firms identified in the records of Respondents as having sold the affected W&R funds in this manner.

7.7.4.6 Individual accountholder addresses will be systematically compared against the U.S. Postal Service's forwarding address database.

7.7.4.7 Rust shall maintain in confidence shareholder identifying information and any other information relating to sub-account holders obtained from any Network Accountholder pursuant to this Distribution Plan, and shall not share such information with Respondents. Rust, however, may share such information with its service providers or other parties to the extent necessary to perform its duties under this Distribution Plan, and Rust shall require that such service providers and other parties maintain such information in confidence.

7.7.4.8 Rust will maintain records of efforts made to obtain the cooperation of the Network Account Brokerage Firm and of the responses to these efforts. After 60 days from the approval of the Distribution Plan, the Outreach Process will cease, unless otherwise directed by Mr. Meehan. Network Accountholders may (1) fail within a reasonable time to respond to the Fund Administrator's request for information identifying shareholders or (2) refuse to provide the Fund Administrator with the requested information. In those instances, the Fund Administrator will proceed as follows: the Fund Administrator will ask the Network accountholder to certify that the Network accountholder will make commercially reasonable efforts consistent with its legal, fiduciary, and contractual duties, as applicable, to disburse the Fair Fund payment to its affected accountholders in accordance with the methodology and the deadlines set forth in this Distribution Plan, and that the Network accountholder will return any undistributed money to an account that has been established to hold residual funds for ultimate disposition in accordance with this Distribution Plan, which may be disbursed to the timed W&R Funds, or which may be paid to the U.S. Treasury in accordance with ¶¶ 6.7 and 7.17. After each such Network accountholder has provided its certification to the IDC, which Fund Administrator will make commercially reasonable efforts to obtain under the direction of the IDC, the IDC will instruct the Fair Fund's custodian to disburse the portion of the Fair Fund allocated to the Network accountholder so that it can distribute the funds to its affected sub-accountholders. In the event such Network accountholder refuses or fails to provide such certification, the amount of Fair Fund allocated to such Network accountholder may become part of the Fair Fund residual, which may be disbursed to the timed W&R Funds, or which may be paid to the U.S. Treasury in accordance with ¶¶ 6.7 and 7.17. After the Network accountholder has distributed the funds in this fashion, the Network accountholder will be required to provide the IDC with a certification that it has complied with these terms and conditions.

7.7.5 <u>Embedded Omnibus Accounts.</u> To the extent that the accountholder identification information provided to Rust in accordance with ¶¶7.7.3.6 and 7.7.4.5 in turn identifies "Omnibus Accounts" or "Network Accounts," the Fund Administrator will not seek account-holder information relating to the beneficiaries of such accounts.

7.7.6 **<u>Distributions to Retirement Plans</u>**

7.7.6.1 Accounts of Retirement Plans may be entitled to distribution pursuant to this Plan. In some cases, the Retirement Plan will be the shareholder of record and will receive their distribution directly. In other cases, an intermediary, e.g., a broker-dealer, underwriter, and/or record-keeper, may be the shareholder of record.

7.7.6.2 Distributions will be made to Retirement Plans if the amount of the distribution meets the *de minimis* threshold of $25.

7.7.6.3 Retirement Plan fiduciaries and intermediaries (as those terms are discussed in the Field Assistance Bulletin) of Retirement Plans should distribute the monies received in accordance with their legal, fiduciary, and contractual obligations and consistent with guidance issued by the Department of Labor, including, but not limited to, Department of Labor Field Assistance Bulletin No. 2006-01, April 19, 2006.

7.7.6.4 Subject to ¶ 7.7.6.3, an intermediary to one or more Retirement Plans may allocate the distribution amount it receives pursuant to this Plan of Distribution to or among eligible Retirement Plans participating in an Omnibus Account administered by such intermediary according to the procedure set forth in ¶ 7.7.3 above, provided, however, that for purposes of such allocation each Retirement Plan itself (and not the individual plan participants) shall be treated as the account owners. The fiduciary of a Retirement Plan receiving such a distribution should then further distribute it as described below.

7.7.6.5 Subject to ¶ 7.7.6.3, this Plan of Distribution proposes four alternatives (which are not necessarily the only methods available) for plan fiduciaries to follow in allocating amounts received by or on behalf of Retirement Plans pursuant to this Plan of Distribution:

7.7.6.5.1 Plan fiduciaries may allocate the distribution amount pro rata (based on total account balance) among the accounts of all persons who are currently participants in the Retirement Plan (whether or not they are currently employees).

7.7.6.5.2 Plan fiduciaries may allocate the distribution amount per capita among the accounts of all persons who are currently participants in the Retirement Plan (whether or not they are currently employees).

7.7.6.5.3 Plan fiduciaries may allocate the distribution amount to current and former participants in the Retirement Plan using the algorithm described in ¶ 5.7, above, of this Plan of Distribution. Respondent will make this algorithm available to plan fiduciaries; or

7.7.6.5.4 To the extent that none of the three preceding alternatives is administratively feasible, plan fiduciaries may, to the extent permitted by the Retirement Plan, use the distribution amount to pay reasonable expenses of administering the plan.

7.7.7 The Fund Administrator will make available the algorithm for calculating the amounts for beneficial shareholders to assist those Retirement Plans that intend to allocate their payments to individual plan participants.

7.8 Costs. Subject to Section 7.4.5, and in accordance with the Orders, the Respondents will bear the costs and expenses associated with the administration of the Distribution Plan, including the reasonable administrative costs incurred by Omnibus Holder Brokerage Firms and Network Firms for identifying individual accountholder records in connection with the Distribution Plan. Requests for reimbursement from Omnibus Holder Brokerage Firms or Network Firms will be paid to the extent that such costs are commercially reasonable in light of the amount to be distributed to such firms. All reimbursement requests are subject to final review by Mr. Meehan and the Fund Administrator.

7.9 Data Accuracy. All brokerage firms providing information to Rust will be required to attest to Mr. Meehan that to the best of their knowledge the information they provide is true and accurate.

7.10 Affected Accountholders. Even though the Distribution Plan does not anticipate soliciting accountholder information directly from affected accountholders, it can be expected that a limited number of accountholders will contact Mr. Meehan, or others, to request a distribution. If this occurs, the information received will be compared to the data obtained by Mr. Meehan during the course of the engagement to 1) ensure accurate account information and 2) avoid any duplication of payment. If, after conducting this comparison, Mr. Meehan determines that a distribution is warranted, then this information will be forwarded to Rust for processing.

7.11 Notice and Accountholder Communications. The Distribution Plan will utilize the following methods to provide notifications and information to affected accountholders. These services will become active at least by the time of the first distribution. The Commission retains the right to review and approve any material posted on the various websites.

7.11.1 Waddell & Reed Website and Toll Free Numbers. The Fund Administrator will provide customer support and communications programs which will become active at least by the time the first distribution occurs. These services will include a toll free number and a website to the public. The Commission retains the right to review and approve any material posted on the website. The website will provide a link to the Commission's website, which is: http://www.sec.gov/divisions/enforce/claims/waddell.htm.

7.11.2 Notice of a Proposed Plan and Opportunity for Comment by Non-parties. Pursuant to the Commission's Rule of Practice 1103, 17 C.F.R. §201.1103, notice of the proposed Distribution Plan shall be published in the SEC Docket, on the Commission website http://www.sec.gov and on the Respondent's website listed below. The notice shall specify how copies of the proposed plan may be obtained and shall state that persons desiring to comment on the proposed plan may submit their views, in writing, to the Commission. Any person or entity wishing to comment on the Plan must do so in writing by submitting their comments within thirty days of the date of the notice (i) by sending a letter to the Office of the Secretary, United States Securities and Exchange Commission, 100 F Street, N.E., Washington, D.C. 20549-1090; (ii) by using the Commission's Internet comment form (www.sec.gov/litigation/admin.shtml); or (iii) by sending an e-mail to rule-comments@sec.gov. Comments submitted by e-mail or via the Commission's website should include the Administrative Proceeding File Number (Admin. Proc. File No. 3-12372) in the subject line. Comments received will be publicly available. Persons should submit only information that they wish to make publicly available. As set forth in the Commission's Rule of Practice 1106, 17 C.F.R. §1106, other than in connection with this comment period, no person shall be granted leave to intervene or to participate or otherwise to appear in any agency proceeding or otherwise to challenge the Distribution Plan, or an order approving, approving with modifications, or disapproving the Distribution Plan; or any determination relating to the Distribution Plan based solely upon that person's eligibility or potential eligibility to participate in a fund or based upon any private right of action such person may have against any person who is also a respondent in the proceeding.

7.11.3 Final Approved Plan. The Distribution Plan, once it has been approved by the Commission ("Final Approved Plan"), will be posted on the following free public web sites:

- http://www.sec.gov/litigation/fairfundlist.htm
- http://www.waddellfairfundsettlement.com/

7.11.4 Frequently Asked Questions. In addition to the Final Approved Plan, a list of "Frequently Asked Questions" ("FAQs") will be posted on the following website:

- http://www.waddellfairfundsettlement.com/

7.12 Initial Distribution. Upon the Commission's approval of the Distribution Plan, and subject to ¶7.14.3, below, Mr. Meehan will direct Rust to implement the Final Approved Plan. The Commission retains jurisdiction over the implementation of the Distribution Plan.

7.12.1 All payments shall be preceded or accompanied by a communication (the "Letter") that includes, as appropriate: (a) a statement describing the distribution; (b) a description of the tax information reporting and other related tax matters; (c) a statement that checks will be void after 90 days; and (d) the name of a person to contact, to be used in the event of any questions regarding the distribution. Where applicable, the Plan shall require the Intermediaries of retirement accounts to distribute the monies received in accordance with its fiduciary and contractual obligations and consistent with guidance issued by the Department of Labor, if any. The Letter or other communication to eligible accountholders describing their distributions shall be submitted to the assigned Commission staff for review and approval. Distribution checks, on their face or in the accompanying mailing, will clearly indicate that the money is being distributed from a Fair Fund established by the SEC.

7.12.2 All accountholders whose distribution is less than the taxable threshold that includes a taxable component will receive the Letter and their distribution checks.

7.12.3 All accountholders whose distribution exceeds the taxable threshold and includes a taxable component will receive the Letter, Form 1099 (or similar document), and their distribution check.

7.12.4 It is expected that all distribution checks will be mailed, via the United States Postal Service ("USPS"), to the eligible accountholders' last known address of record. All checks drawn on the Account will bear the legend "Void after 90 days." A wire transfer may be made in lieu of a check payment where efficiencies dictate. Unless specific direction is provided by Mr. Meehan or the Commission staff, checks that are not negotiated within the 90-day period will not be honored and Rust will instruct the Bank to refuse payment on those checks.

7.12.5 While the distribution is being implemented, Rust will submit an accounting during the first ten days of each calendar quarter to Commission staff (in a format provided by Commission staff), and will submit a final accounting (in a format provided by Commission staff) for approval of the Commission prior to termination of the Fair Fund and discharge of the Fund Administrator. Rust has agreed to provide regular updates and reconciliations to Mr. Meehan, and will provide a final reconciliation of all un-distributed funds to Mr. Meehan.

7.13 Tax Issues. The methods of calculation of each accountholders' share of the Fair Fund are intended to result in a payment to each eligible accountholder that restores the impaired value of the accountholder's investment in affected W&R funds. Some of this impaired value is susceptible to calculation while some of this impaired value is not. The methods of calculation are intended by the Commission to fairly estimate the impaired value that each investor has suffered and make a payment in that amount.

7.13.1 Tax Administrator. The Commission has appointed Damasco & Associates ("Damasco") as the Tax Administrator of the Fair Fund ("Tax Administrator"). Mr. Meehan, Rust, and the Respondents will cooperate with the Tax Administrator in providing information necessary to accomplish the income tax compliance, ruling and advice work assigned to the Tax Administrator by the Commission on behalf of the QSF. The Tax Administrator shall be compensated by the Respondents.

7.13.2 Other Tax Obligations. Mr. Meehan will consult with the Tax Administrator regarding the Fair Fund's income tax compliance, reporting and withholding obligations, if any. Mr. Meehan shall work with the Tax Administrator to make adequate reserves for tax liability and any costs of tax compliance not required to be paid by the Respondents.

7.13.3 IRS Ruling and Estimated Distribution Duration. The Tax Administrator has not been asked to seek a Private Letter Ruling from the IRS. As such, and provided that the period for omnibus outreach has expired in accordance with ¶¶ 7.7.5.3, 7.7.3.7, and 7.7.4.8 above, and that the Fund Administrator has completed its final calculation of the amount to be distributed to each eligible accountholder and associated validations, the Fund Administrator will use its best efforts to: (i) start the distribution within 45 days of the date of the Final Approved Plan, and (ii) complete the distribution within four months of the transfer of the final payment population to the Escrow Account in accordance with ¶7.4.4.

7.14 Appeals.

7.14.1 The appeals process will be detailed in communications to investors and on the website.

7.14.2 Appeals will be accepted only for failure to execute this Plan in accordance with its terms for purposes of determining eligibility or for mechanical errors in determining eligibility or calculating the payment to a recipient.

7.14.3 Appeals are to be submitted in writing to the IDC, who will serve as appeal arbiter, within 240 days of the final approval of the Plan of Distribution by the Commission. The appeal arbiter will resolve all appeals within 270 days of final approval. Funds from the Fair Fund's residual may be used to pay successful appeals, if any. The appeal arbiter will be paid by Respondent.

7.14.4 Communications with investors about the distribution may include a statement notifying investors that appeals are available through the procedure specified in Section 7.14 of this Plan.

7.15 Locating Accountholders. Returned and/or undelivered mail and checks will be handled as follows:

7.15.1 All mail returned by the USPS for which a new forwarding address has been provided by the USPS will be immediately repackaged and sent to the new address. The master database will be updated with the new address.

7.15.2 All mail returned by the USPS for the first time, without a new forwarding address, will be coded as return mail. The check will be voided, and the information forwarded to a company that has access to address information. That company will then search for the most current address available through its proprietary databases and return each record back to the Fund Administrator. If a new address is found, that address will be updated to the master database and a new check will be issued.

7.15.3 All mail returned by the USPS from a second attempted mailing, for which a new forwarding address has been provided by the USPS, will be immediately repackaged and sent to the new address. The master database will be updated with the new address.

7.15.4 All mail returned by the USPS from a second attempted mailing, without a new forwarding address, will be coded as returned mail and the check will be voided. Additional efforts to identify the addresses of eligible accountholders will be conducted as is commercially reasonable in the view of Mr. Meehan, where the costs of further research and the amount to be distributed will be considered. Once Mr. Meehan determines that it is not commercially reasonable to attempt further mailings, then there will be no further attempts to locate accountholders.

7.15.5 All uncashed checks returned as undeliverable will be coded as such. These checks will be identified as "VOID," coded into the settlement database and stored in a secure facility until they are destroyed.

7.16 Special Circumstances. It is anticipated that distribution checks will be returned to Rust for various reasons, including the death, divorce, incapacitation, bankruptcy, or dissolution of the affected eligible accountholder. Rust and/or Mr. Meehan will resolve and process these distributions on a case-by-case basis.

7.17 Residual Funds. Following the completion of the Fair Fund disbursements to individual accountholders and timed W&R Funds described in ¶6, appeals, if any, under ¶7.14, the payment of all taxes and fees, and Commission approval of the final accounting, the Fair Fund residual will be transferred by Order of the Commission to the U.S. Treasury.

7.18 Timing of the Distribution Process. The Fund Administrator shall complete the distribution as quickly as commercially reasonable following the final approval of this Plan of Distribution.

7.19 Extensions of Deadlines. The IDC at his discretion may grant an extension of any of the deadlines described in this Plan of Distribution for good cause shown.

7.20 Material Changes in Plan. Mr. Meehan will inform the Commission of any material changes in the Distribution Plan, and will obtain approval from the Commission prior to their implementation. If material changes are required, the Distribution Plan may be amended upon motion of the IDC, the Fund Administrator, or upon the Commission's own motion.

Submitted by James C. Meehan, Independent Distribution Consultant.

Table 1
Fee-Paying Timer's Volume and Number of Days with Transactions by Firm

Dollars in millions

	Total	
	Total	
Firm	**# Days**[1]	**Dollar Volume**[2]
Timer 1	404	6,141.0
Timer 2	211	1,897.0
Timer 3	35	371.6
Total:	554	8,409.6

Note:

1. Days are the number of days where any account by the fee-paying timers actively made trades in a Waddell and Reed equity fund. The date range for each of these timers starts at the date that each signed an agreement with Waddell and Reed. The start dates are December 1, 1998 for Timer 1, February 21, 2001 for Timer 2 and May 14, 2002 for Timer 3. The number of days column does not sum up to total because the same day may have multiple firms trading.

2. This is the dollar volume of all purchases and sales by fee-paying timers where purchases of shares could be matched with sales of shares. The date range for each of these timers starts at the date that each signed an agreement with Waddell and Reed. The start dates are December 1, 1998 for Timer 1, February 21, 2001 for Timer 2 and May 14, 2002 for Timer 3.

Table 2
Fee-Paying Timer's Volume and Number of Days with Transactions by Fund

Dollars in millions

	Total	
Fund	# Days[1]	Dollar Volume[2]
New Concepts	266	2,065.7
International Growth	175	1,865.7
Science & Technology	224	1,237.9
Accumulative	158	1,069.1
Core Investment	93	978.8
Vanguard	66	846.7
Small Cap	171	239.7
Continental Income	16	85.6
Value	5	20.6
Total	554	8,409.6

Note:

1. Days are the number of days where any account by the fee-paying timers actively made trades in a Waddell and Reed equity fund. The date range for each of these timers starts at the date that each signed an agreement with Waddell and Reed. The start dates are December 1, 1998 for Timer 1, February 21, 2001 for Timer 2 and May 14, 2002 for Timer 3. The number of days column may not sum up to total because the same day may have multiple funds trading.

2. This is the dollar volume of all purchases and sales by fee-paying timers where purchases of shares could be matched with sales of shares. The date range for each of these timers starts at the date that each signed an agreement with Waddell and Reed. The start dates are December 1, 1998 for Timer 1, February 21, 2001 for Timer 2 and May 14, 2002 for Timer 3.

Table 3

Fee-Paying Timer's Volume and Number of Days with Transactions by Quarter

Dollars in millions

	Total	
Quarter	**# Days[1]**	**Dollar Volume[2]**
98Q4	5	47.6
99Q1	21	349.0
99Q2	25	447.4
99Q3	23	478.0
99Q4	25	422.7
00Q1	30	570.6
00Q2	30	590.5
00Q3	26	428.4
00Q4	31	587.4
01Q1	32	466.6
01Q2	33	666.4
01Q3	26	555.4
01Q4	43	554.6
02Q1	38	734.6
02Q2	39	552.2
02Q3	41	452.0
02Q4	21	171.1
03Q1	18	155.0
03Q2	25	94.3
03Q3	22	85.9
Total	554	8,409.6

Note:

1. Days are the number of days where any account by the fee-paying timers actively made trades in a Waddell and Reed equity fund. The date range for each of these timers starts at the date that each signed an agreement with Waddell and Reed. The start dates are December 1, 1998 for Timer 1, February 21, 2001 for Timer 2 and May 14, 2002 for Timer 3.

2. This is the dollar volume of all purchases and sales by fee-paying timers where purchases of shares could be matched with sales of shares. The date range for each of these timers starts at the date that each signed an agreement with Waddell and Reed. The start dates are December 1, 1998 for Timer 1, February 21, 2001 for Timer 2 and May 14, 2002 for Timer 3.

Table 4
Regression of Net Equity Purchases on Timer 1's Cash Flows and Other Cash Flows

	Lagged Days	1	2	3	4	5	6	7	8	9	10	Partial F-test/ adj R^2
Accumulative Fund												
1	Timer 1 Cash Flows	0.301	0.346	0.150	-0.142	-0.115	0.418	0.412	-0.143	-0.143	-0.054	0.4795/ -0.002
	T-stat	0.970	1.110	0.480	-0.450	-0.360	1.310	1.300	-0.460	-0.460	-0.170	
	All Other Cash Flows	0.162	0.285	0.746	-1.047	0.773	-0.443	0.448	0.670	-0.638	-0.381	
	T-stat	0.260	0.460	1.210	-1.690	1.240	-0.710	0.720	1.080	-1.030	-0.610	
Core Investment Fund												
2	Timer 1 Cash Flows	-0.043	-0.382	-0.085	0.038	0.102	-0.098	-0.180	0.108	0.002	-0.082	0.5436/ -0.0135
	T-stat	-0.190	-1.700	-0.380	0.170	0.450	-0.440	-0.790	0.480	0.010	-0.370	
	All Other Cash Flows	0.004	0.290	0.212	-0.083	-0.173	0.150	-0.004	-0.175	0.138	0.302	
	T-stat	0.020	1.180	0.860	-0.340	-0.700	0.610	-0.020	-0.710	0.560	1.230	
International Growth Fund												
3	Timer 1 Cash Flows	**0.174**	**0.206**	**0.238**	**0.178**	**0.178**	**0.239**	**0.224**	0.151	0.108	-0.004	**0.0002**/ 0.0094
	T-stat	**1.990**	**2.330**	**2.620**	**1.960**	**1.980**	**2.640**	**2.470**	1.660	1.220	-0.040	
	All Other Cash Flows	0.041	0.047	**0.069**	**0.067**	0.049	0.059	0.021	0.046	0.031	0.022	
	T-stat	1.810	1.830	**2.400**	**2.230**	1.620	1.920	0.690	1.600	1.220	1.000	
New Concepts Fund												
4	Timer 1 Cash Flows	0.011	0.008	**0.241**	**0.226**	0.070	**0.182**	**0.149**	-0.007	0.046	0.045	**0.0031**/ 0.0233
	T-stat	0.150	0.110	**3.250**	**3.020**	0.930	**2.420**	**1.990**	-0.100	0.630	0.610	
	All Other Cash Flows	-0.039	-0.054	**-0.083**	0.031	0.062	**0.119**	0.074	**0.114**	0.004	0.029	
	T-stat	-1.140	-1.440	**-2.080**	0.760	1.500	**2.880**	1.810	**2.840**	0.120	0.860	
Science and Technology Fund												
5	Timer 1 Cash Flows	0.311	0.287	0.455	0.126	-0.135	0.257	0.512	0.256	**-0.539**	0.056	0.2503/ 0.0102
	T-stat	1.160	1.060	1.660	0.450	-0.480	0.910	1.830	0.930	**-1.980**	0.210	
	All Other Cash Flows	-0.007	0.031	-0.004	0.011	0.175	0.053	-0.156	**-0.315**	-0.147	**-0.182**	
	T-stat	-0.080	0.310	-0.040	0.100	1.680	0.510	-1.500	**-3.020**	-1.460	**-2.000**	
Vanguard Fund												
6	Timer 1 Cash Flows	0.070	**0.211**	0.021	0.039	**0.244**	-0.068	-0.003	-0.010	-0.002	0.013	0.3868/ -0.0002
	T-stat	0.680	**1.980**	0.200	0.360	**2.200**	-0.610	-0.030	-0.090	-0.010	0.130	
	All Other Cash Flows	0.216	0.061	0.039	**0.369**	-0.008	0.008	-0.050	0.119	0.002	-0.019	
	T-stat	1.480	0.410	0.260	**2.490**	-0.060	0.050	-0.340	0.800	0.010	-0.130	

Note: Regressions were run on all funds where Timer 1 traded at least $500 million in a fund. Numbers in bold are significant at the 95% level. Coefficients estimated with the equation:

$$\text{Equity Purchases}_t = \sum_{x=1}^{10} \beta_{1,x} * (\text{Fee-Paying Timer Flow}_{t-x}) + \beta_{2,x} * (\text{Other Flows}_{t-x})$$

All cash flows are converted to a share basis. Timer's equity purchases are restricted to transactions made after they signed timing agreements. The regressions were run from the time of the first trade after the signed agreement by a fee-paying timer to ten business days after the last trade by a fee-paying timer for the respective fund. The partial F-test test whether the sum of the coefficients on cash flows is equal to zero.

Table 5
Regression of Net Equity Purchases on Timer 2 Cash Flows and Other Cash Flows

	Lagged Days	1	2	3	4	5	6	7	8	9	10	Partial F-test/ adj R^2
New Concepts Fund												
1	Timer 2 Cash Flows	-0.021	-0.095	-0.042	-0.144	-0.036	0.015	-0.058	0.085	0.043	-0.009	0.6403/ -0.0002
	T-stat	-0.290	-1.150	-0.470	-1.550	-0.390	0.160	-0.620	0.960	0.520	-0.120	
	All Other Cash Flows	0.010	-0.034	-0.031	**0.153**	0.070	**0.135**	0.066	0.095	0.041	0.074	
	T-stat	0.160	-0.520	-0.460	**2.290**	1.040	**2.020**	0.990	1.470	0.660	1.230	
Science and Technology Fund												
2	Timer 2 Cash Flows	0.014	0.344	0.695	0.403	0.146	-0.145	0.576	0.237	0.063	-0.050	0.4218/ -0.0197
	T-stat	0.040	0.820	1.550	0.860	0.310	-0.300	1.230	0.530	0.150	-0.130	
	All Other Cash Flows	-0.019	-0.133	-0.162	-0.300	-0.205	-0.077	**-0.384**	-0.323	-0.144	-0.191	
	T-stat	-0.110	-0.700	-0.830	-1.520	-1.030	-0.390	**-1.960**	-1.670	-0.780	-1.120	

Note: Regressions were run on all funds where Timer 2 traded at least $500 million in a fund. Numbers in bold are significant at the 95% level. Coefficients estimated with the equation:

$$\text{Equity Purchases}_t = \sum_{x=1}^{10} \beta_{1,x} * (\text{Fee-Paying Timer Flow}_{t-x}) + \beta_{2,x} * (\text{Other Flows}_{t-x})$$

All cash flows are converted to a share basis. Timer's equity purchases are restricted to transactions made after they signed timing agreements. The regressions were run from the time of the first trade after the signed agreement by a fee-paying timer to ten business days after the last trade by a fee-paying timer for the respective fund. The partial F-test test whether the sum of the coefficients on cash flows is equal to zero.

Table 6
Weighted-Average Holding Period in Fund by Firm and Fund

In trading days

	Accumulative	Continental Income	Core Investment	International Growth	New Concepts	Science & Technology	Small Cap	Value	Vanguard
Timer 3	-	-	1.0	1.8	2.0	-	2.0	-	3.0
Timer 2	4.6	-	-	2.2	3.8	3.9	3.8	-	-
Timer 1	6.3	4.4	9.4	6.6	7.1	8.1	21.0	5.8	5.6

Note: Holding period is measured as the difference in the number of trading days between purchase and sale where puchases and sales of the fee-paying timers could be matched. The average holding period is weighted by the dollar value of the fee-paying timer's trades. This is calculated for the period when the fee-paying timers had signed agreements with Waddell and Reed. "-" means that the fee-paying timer did not trade that fund after the timer signed a contract.

Table 7

Aggregate Dilution Model by Fund and Quarter in Dollar Amount Using Multiple Dilution Methodologies

Dollars in thousands

Source: Discovery Documents

Aggregate Dilution Before Interest

Fund	Q4 '98	Q1 '99	Q2 '99	Q3 '99	Q4 '99	Q1 '00	Q2 '00	Q3 '00	Q4 '00	Q1 '01	Q2 '01	Q3 '01	Q4 '01	Q1 '02	Q2 '02	Q3 '02	Q4 '02	Q1 '03	Q2 '03	Q3 '03	Q4 '03	Total
International Growth																						
Timer 1	-	583	3,610	1,117	(1,509)	5,476	3,081	1,352	1,276	741	(81)	(0)	0	2	(0)	(0)	0	(0)	7	(1)	-	15,654
Non-Timer 1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(193)	1,560	621	(23)	94	75	-	2,133
Sub-total	-	583	3,610	1,117	(1,509)	5,476	3,081	1,352	1,276	741	(81)	(0)	0	2	(193)	1,560	621	(23)	101	74	-	17,787
New Concepts																						
Timer 1	-	(146)	(111)	340	(269)	2,707	(137)	(1,226)	90	889	1,348	65	(478)	175	(33)	(0)	138	(237)	19	124	(486)	2,772
Non-Timer 1	-	-	-	-	-	-	-	-	-	(906)	(504)	(1,559)	1,042	(588)	(412)	(990)	-	-	44	-	-	(3,873)
Sub-total	-	(146)	(111)	340	(269)	2,707	(137)	(1,226)	90	(17)	844	(1,493)	564	(413)	(444)	(990)	138	(237)	63	124	(486)	(1,101)
Vanguard																						
Timer 1/Vanguard (pre 3/31/2000)	(401)	(244)	1,212	230	69	(510)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	356
Timer 1/Vanguard (post 4/1/2000)	-	-	-	-	-	-	(595)	-	-	-	-	-	-	(1,614)	-	(1)	-	(127)	-	-	-	(2,337)
Non-Timer 1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	595	0	-	-	595
Sub-total	(401)	(244)	1,212	230	69	(510)	(595)	-	-	-	-	-	-	(1,614)	-	(1)	-	468	0	-	-	(1,386)
Science & Technology	-	-	800	(56)	5,699	(1,226)	(109)	(344)	(1,279)	(55)	(284)	(554)	1,621	(1,657)	(234)	(521)	230	-	-	-	-	2,032
Accumulative	-	-	-	-	2,196	448	(215)	(68)	966	(1,713)	479	(314)	680	1,134	(1,971)	(189)	-	(5)	-	35	-	1,462
Small Cap	-	-	-	-	-	-	-	-	-	(133)	(56)	(132)	95	18	(63)	(64)	222	(284)	423	(96)	-	(72)
Value	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(29)	(144)	-	-	-	(173)
Continental Income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(75)	(194)	(0)	-	-	-	-	(269)
Core Investment	(0)	-	47	38	290	(352)	(15)	(422)	27	(1,529)	(730)	-	(179)	-	-	-	-	-	(142)	-	-	(2,969)
Total	(401)	193	5,557	1,669	6,476	6,542	2,010	(706)	1,079	(2,705)	171	(2,495)	2,781	(2,530)	(2,981)	(400)	1,182	(225)	444	137	(486)	15,313

Aggregate Dilution Compound Interest

Fund	Q4 '98	Q1 '99	Q2 '99	Q3 '99	Q4 '99	Q1 '00	Q2 '00	Q3 '00	Q4 '00	Q1 '01	Q2 '01	Q3 '01	Q4 '01	Q1 '02	Q2 '02	Q3 '02	Q4 '02	Q1 '03	Q2 '03	Q3 '03	Q4 '03	Total
International Growth																						
Timer 1	-	116	704	200	(236)	773	403	144	117	56	(5)	(0)	0	0	(0)	(0)	0	(0)	0	(0)	-	2,273
Non-Timer 1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(5)	35	10	(0)	1	0	-	40
Sub-total	-	116	704	200	(236)	773	403	144	117	56	(5)	(0)	0	0	(5)	35	10	(0)	1	0	-	2,313
New Concepts																						
Timer 1	-	(31)	(21)	60	(40)	398	(12)	(137)	9	68	81	4	(21)	6	(1)	(0)	2	(2)	0	1	(1)	362
Non-Timer 1	-	-	-	-	-	-	-	-	-	(64)	(34)	(84)	43	(22)	(12)	(21)	-	-	0	-	-	(193)
Sub-total	-	(31)	(21)	60	(40)	398	(12)	(137)	9	4	47	(80)	21	(16)	(13)	(21)	2	(2)	0	1	(1)	170
Vanguard																						
Timer 1/Vanguard (pre 3/31/2000)	(86)	(53)	236	42	9	(77)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	71
Timer 1/Vanguard (post 4/1/2000)	-	-	-	-	-	-	(71)	-	-	-	-	-	-	(57)	-	(0)	-	(1)	-	-	-	(129)
Non-Timer 1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6	0	-	-	6
Sub-total	(86)	(53)	236	42	9	(77)	(71)	-	-	-	-	-	-	(57)	-	(0)	-	5	0	-	-	(53)
Science & Technology	-	-	149	(13)	920	(178)	(13)	(32)	(115)	(4)	(17)	(30)	67	(61)	(7)	(10)	4	-	-	-	-	660
Accumulative	-	-	-	-	359	63	(26)	(7)	79	(137)	32	(17)	29	38	(59)	(4)	-	(0)	-	0	-	352
Small Cap	-	-	-	-	-	-	-	-	-	(9)	(4)	(7)	4	0	(2)	(1)	3	(3)	3	1	-	(15)
Value	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(0)	(2)	-	-	-	(2)
Continental Income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2)	(4)	(0)	-	-	-	-	(6)
Core Investment	(0)	-	9	7	49	(52)	(2)	(49)	4	(106)	(40)	-	(9)	-	-	-	-	-	(1)	-	-	(189)
Total	(86)	33	1,077	296	1,060	927	280	(80)	93	(196)	13	(134)	113	(96)	(88)	(5)	19	(2)	3	1	(1)	3,229

Aggregate Dilution including Compounded Interest

Fund	Q4 '98	Q1 '99	Q2 '99	Q3 '99	Q4 '99	Q1 '00	Q2 '00	Q3 '00	Q4 '00	Q1 '01	Q2 '01	Q3 '01	Q4 '01	Q1 '02	Q2 '02	Q3 '02	Q4 '02	Q1 '03	Q2 '03	Q3 '03	Q4 '03	Total
International Growth																						
Timer 1	$ -	$ 700	$ 4,314	$ 1,317	$ (1,744)	$ 6,248	$ 3,485	$ 1,496	$ 1,393	$ 798	$ (87)	$ (0)	$ 0	$ 2	$ (0)	$ (0)	$ 0	$ (0)	$ 7	$ (1)	$ -	$ 17,927
Non-Timer 1	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (198)	$ 1,595	$ 632	$ (24)	$ 94	$ 75	$ -	$ 2,174
Sub-total	$ -	$ 700	$ 4,314	$ 1,317	$ (1,744)	$ 6,248	$ 3,485	$ 1,496	$ 1,393	$ 798	$ (87)	$ (0)	$ 0	$ 2	$ (198)	$ 1,595	$ 632	$ (24)	$ 101	$ 74	$ -	$ 20,101
New Concepts																						
Timer 1	$ -	$ (176)	$ (132)	$ 401	$ (309)	$ 3,105	$ (149)	$ (1,362)	$ 99	$ 957	$ 1,429	$ 69	$ (499)	$ 181	$ (34)	$ (0)	$ 140	$ (240)	$ 19	$ 124	$ (487)	$ 3,134
Non-Timer 1	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (970)	$ (538)	$ (1,642)	$ 1,085	$ (609)	$ (424)	$ (1,011)	$ -	$ -	$ 45	$ -	$ -	$ (4,065)
Sub-total	$ -	$ (176)	$ (132)	$ 401	$ (309)	$ 3,105	$ (149)	$ (1,362)	$ 99	$ (13)	$ 891	$ (1,573)	$ 585	$ (429)	$ (458)	$ (1,011)	$ 140	$ (240)	$ 63	$ 124	$ (487)	$ (931)
Vanguard																						
Timer 1/Vanguard (pre 3/31/2000)	$ (487)	$ (297)	$ 1,448	$ 272	$ 78	$ (587)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 426
Timer 1/Vanguard (post 4/1/2000)	$ -	$ -	$ -	$ -	$ -	$ -	$ (665)	$ -	$ -	$ -	$ -	$ -	$ -	$ (1,671)	$ -	$ (1)	$ -	$ (128)	$ -	$ -	$ -	$ (2,466)
Non-Timer 1	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 601	$ 0	$ -	$ -	$ 601
Sub-total	$ (487)	$ (297)	$ 1,448	$ 272	$ 78	$ (587)	$ (665)	$ -	$ -	$ -	$ -	$ -	$ -	$ (1,671)	$ -	$ (1)	$ -	$ 473	$ 0	$ -	$ -	$ (1,438)
Science & Technology	$ -	$ -	$ 948	$ (68)	$ 6,618	$ (1,404)	$ (122)	$ (376)	$ (1,394)	$ (58)	$ (301)	$ (584)	$ 1,688	$ (1,718)	$ (241)	$ (531)	$ 234	$ -	$ -	$ -	$ -	$ 2,692
Accumulative	$ -	$ -	$ -	$ -	$ 2,555	$ 511	$ (242)	$ (74)	$ 1,044	$ (1,849)	$ 511	$ (331)	$ 710	$ 1,172	$ (2,030)	$ (193)	$ -	$ (5)	$ -	$ 35	$ -	$ 1,814
Small Cap	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (142)	$ (60)	$ (140)	$ 99	$ 18	$ (65)	$ (66)	$ 225	$ (287)	$ 426	$ (95)	$ -	$ (87)
Value	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (29)	$ (145)	$ -	$ -	$ -	$ (175)
Continental Income	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (77)	$ (198)	$ (0)	$ -	$ -	$ -	$ -	$ (275)
Core Investment	$ (0)	$ -	$ 56	$ 45	$ 339	$ (404)	$ (17)	$ (470)	$ 30	$ (1,635)	$ (770)	$ -	$ (188)	$ -	$ -	$ -	$ -	$ -	$ (143)	$ -	$ -	$ (3,158)
Total	$ (487)	$ 226	$ 6,634	$ 1,966	$ 7,536	$ 7,469	$ 2,290	$ (786)	$ 1,172	$ (2,901)	$ 184	$ (2,629)	$ 2,894	$ (2,625)	$ (3,069)	$ (406)	$ 1,201	$ (227)	$ 447	$ 138	$ (487)	$ 18,542

Note: Dilution is calculated using the multiple dilution methodologies. Interest is calculated using the short-term Applicable Federal Rate provided monthly by the IRS (Section 1274) through October 31, 2003. Traders' profit is used for all funds with the following exceptions. In International Growth, New Concepts, and Vanguard prior to March 31, 2000 for Timer 1 trades, some timer funds were invested in equity based upon regression results.