

WALLACE CAPITAL MANAGEMENT, INC.

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March 31, 2011

This Brochure provides information about the qualifications and business practices of Wallace Capital Management, Inc. ("**WCM**"). If you have any questions about the contents of this Brochure, please contact us by telephone at (214) 303-0200. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Wallace Capital Management, Inc. is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an investment advisor provide you with information about which you determine to hire or retain an investment advisor.

Additional information about Wallace Capital Management, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

On July 28, 2010, the United State Securities and Exchange Commission published “Amendments to Form ADV”, which amends the disclosure document that we provide to clients as required by SEC Rules. This brochure dated March 31, 2011 is a new document prepared according to the SEC’s new requirements and rules. As such, this document is materially different in structure and requires certain new information that our previous brochure did not require.

In the future, this Item 2 will discuss only specific material changes that are made to the brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent brochures within 120 days of the close of our business’ fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new brochure as necessary based on changes or new information, at any time, without charge.

Currently, our brochure may be requested by contacting Blake Estess, our firm’s Chief Compliance Officer, by telephone at (214) 303-0200.

Additional information about Wallace Capital Management, Inc. is also available via the SEC’s web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s web site also provides information about any persons affiliated with WCM who are registered, or are required to be registered, as investment adviser representatives of WCM.

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#### Item 4 – Advisory Business

WCM provides investment supervisory services to its clients, which consist of individuals, high-net-worth individuals, individual retirement and profit-sharing plans, charitable institutions, foundations, and private investment funds. These services include, but are not limited to: (1) a discussion of each client's investment objectives; (2) buying or selling securities on the client's behalf; and (3) periodically reviewing each client's portfolio.

WCM acts as an investment advisor to its clients by managing the cash, equity securities, fixed income securities, and any other securities that may be held in each client's account. WCM is able to tailor its investment advisory services to the individual investment objectives and risk tolerances of its separately managed account clients. Subject to the mutual written agreement of both parties, clients may impose certain restrictions on the securities that are held in that client's separately managed account.

In addition, certain clients of WCM are investors in the Wallace Capital Management Fund, L.P. (the "**Fund**"), of which WCM is the general partner, and to which WCM acts as the investment advisor. Because it is a commingled investment limited partnership, individual clients are not able to impose investment restrictions on WCM's management of the Fund.

WCM is an independent investment advisory firm that was founded on May 1, 2002. The firm's principal owner is Scott Wallace, and majority of the ownership interest of the firm is held by its employees.

As of December 31, 2010, WCM managed client assets on a discretionary basis in the amount of \$166,750,000, and managed clients on a non-discretionary basis in the amount of \$1,400,000.

## Item 5 – Fees and Compensation

In consideration of the investment management services described in Item 4 above, clients for whom WCM manages a distinct, customized portfolio of cash and securities (in the remainder of this brochure, such accounts will be referred to as “**Separate Accounts**” and such clients will be referred to as “**Separate Account Clients**”) pay WCM a fee equal to 1.00% per year. This fee is paid on a quarterly basis (0.25% per calendar quarter) in arrears, and is pro-rated for any periods less than a full calendar quarter. Investment contracts for a Separate Account may be terminated by WCM or the Separate Account Client upon 30 days’ written notice to the other party.

The fee schedule for the Fund consists of a 1.00% annual management fee as well as a performance fee. The performance fee is equal to 20% of the investment gains in excess of a 10% compounding annual hurdle rate applicable to the capital account of each investor in the Fund. WCM will structure any performance or incentive fee arrangement subject to Section 205(a)(1) of the Investment Advisors Act of 1940 (the “**Advisors Act**”) in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3. In measuring clients' assets for the calculation of performance-based fees, WCM shall include realized and unrealized capital gains and losses.

Performance based fee arrangements may create an incentive for WCM to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor performance fee paying accounts over other accounts in the allocation of investment opportunities. WCM has procedures designed and implemented to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients.

All fees are subject to negotiation. Under certain circumstances, the fees a particular client pays may be negotiated to a level either higher or lower than the fee schedule described above. In addition to the management fees that will be charged to clients by WCM and the performance fees that certain Fund clients may incur, all clients of WCM will also incur additional fees charged by non-affiliated firms to transact trades and provide custodial services, process wire transfers, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund’s prospectus. Such charges, fees and commissions are exclusive of and in addition to WCM’s fee, and WCM will not receive any portion of these commissions, fees, and costs.

The specific manner in which fees are charged by WCM is established in a client's written agreement with WCM for Separate Account Clients, and in the Private Placement Memorandum of the Wallace Capital Management Fund, L.P. (the "**Offering Memorandum**") for those clients who invest in the Fund. For both Separate Account Clients and clients of the Fund, clients authorize WCM to directly debit fees from the client's Separate Account or capital account, as applicable. Management fees are not prorated for each capital contribution and withdrawal made during the applicable calendar quarter. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

Item 12 below further describes the factors that WCM considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

#### **Item 6 – Performance-Based Fees and Side-By-Side Management**

The fee schedule for the Fund consists of a 1.00% annual management fee as well as a performance fee. The performance fee is equal to 20% of the investment gains in excess of a 10% compounding annual hurdle rate applicable to the capital account of each investor in the Fund. WCM will structure any performance or incentive fee arrangement subject to Section 205(a)(1) of the Investment Advisors Act of 1940 (the "**Advisors Act**") in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3. In measuring clients' assets for the calculation of performance-based fees, WCM shall include realized and unrealized capital gains and losses.

Performance based fee arrangements may create an incentive for WCM to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor performance fee paying accounts over other accounts in the allocation of investment opportunities. WCM has procedures designed and implemented to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients.

## Item 7 – Types of Clients

WCM provides portfolio management services to individuals, high net worth individuals, individual retirement and profit-sharing plans, charitable institutions, foundations, private investment funds, corporations, and limited partnerships.

In addition to managing accounts on behalf of its Separate Account Clients, WCM serves as the general partner and the investment advisor of the Fund. The Fund is exempt from registration as an investment company pursuant to Rule 506 of Regulation D Section 4(6) of the Investment Company Act of 1940, as amended. The investment objective of the Fund is to produce capital appreciation through investments in a diversified portfolio of U.S. (and in some cases, non-U.S.) stocks and bonds of various market capitalizations.

At times, the Fund and the Separate Accounts may own many of the same securities. However the portfolio of securities held in one or more Separate Accounts and the portfolio of securities held in the Fund may be materially different. These differences may include, but are not limited to, the following: (1) the Fund may own different individual securities than those held in one or more Separate Accounts; (2) the market capitalization of one or more of the individual securities (the Fund may own more small capitalization companies than the Separate Accounts); (3) the overall number of holdings in an account; (4) the position size or concentration in one or more securities; and (5) the size of the cash position in the Fund vs. one or more Separate Accounts. As a result of these differences, the investment performance of the Fund and the investment performance of one or more Separate Accounts may be materially different. Due to the potential of having a higher position size concentration and the potential of holding more small capitalization companies, the investment performance of the Fund may be more volatile than the performance of one or more Separate Accounts.

As of March 31, 2011, the minimum account size of a Separate Account is \$500,000, and the minimum capital account size of an investment in the Fund is \$1,000,000. WCM reserves the right to waive its minimum account size requirements in its sole discretion. In addition, WCM reserves the right to raise or lower these minimum account size requirements at its sole discretion and without prior notice.

## **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

Although their individual holdings may be materially different, WCM utilizes a single investment strategy for both the Separate Accounts and the Fund. Please refer to Item 7 above for a list of these differences. The foundation of WCM's investment strategy is to invest in a security only when we believe that there is a significant dislocation between the value of a company and the value indicated by its stock price. We take only "long" positions when investing, which means that we do not engage in "short-selling". All investment decisions are made within the context of our perspective of the macroeconomic environment and the industry-specific environment at the time of the investment.

WCM primarily invests in U.S. equities (and some non-U.S. equities) with no restrictions or bias regarding market capitalization. In addition to publicly traded equities, WCM is also authorized to own fixed income securities, mutual funds, cash (or cash equivalents), and other securities in the Fund and/or the Separate Accounts. The Separate Accounts and the Fund are constructed and managed with a long-term investment horizon. The Fund and the Separate Accounts are more concentrated (i.e. fewer number of positions) than the overall stock market (e.g. the S&P 500 Index). Due to this increased concentration, it is possible that the performance of the Fund and/or the Separate Accounts will be more volatile than the overall stock market.

Although WCM is authorized to purchase various types of securities in the Separate Accounts and the Fund, WCM invests primarily in publicly traded equity securities. Investing in such securities carries with it the inherent risk of a significant loss of capital, which a client should be prepared to bear.

## **Item 9 – Disciplinary Information**

Registered investment advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of WCM or the integrity of WCM's employees and/or management personnel. WCM has no information to disclose that is applicable to this Item.

## **Item 10 – Other Financial Industry Activities and Affiliations**

Registered investment advisors are required to disclose certain information about an investment advisor's other financial industry activities and industry affiliations. WCM has no information to disclose that is applicable to this Item.

## **Item 11 – Code of Ethics**

WCM has adopted a Code of Ethics ("**Code**") for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All WCM employees must acknowledge the terms of the Code annually, or as amended.

WCM anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause accounts over which WCM has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which WCM, its affiliates and/or clients, directly or indirectly, have a position of interest. WCM's employees are required to follow WCM's Code. Subject to satisfying this policy and applicable laws, employees of WCM and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for WCM's clients. The Code is designed to assure that the personal securities transactions, activities and interests of the employees of WCM will not interfere with (i) making decisions in the best interest of advisory clients; and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

The Code requires pre-clearance of many transactions. Because the Code in some circumstances would permit employees to invest in the same securities as WCM's clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code, and to reasonably prevent conflicts of interest between WCM and its clients.

Certain employee-affiliated accounts may trade in the same securities with client accounts on an aggregated basis when consistent with WCM's obligation of best execution. In such circumstances, the affiliated and client accounts will share commission costs equally and receive securities at a total average price. WCM will retain records of the trade order and its allocation. Completed orders will be allocated as specified in the initial trade order. WCM's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting the firm's Chief Compliance Officer, Blake Estess, by telephone at (214) 303-0200.

It is WCM's policy that the firm will not affect any principal or agency cross securities transactions for client accounts. WCM will also not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated hedge fund and another client account. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

WCM has no such dual registration, nor does it have an affiliated broker-dealer.

## **Item 12 – Brokerage Practices**

WCM executes transactions for Separate Accounts and the Fund via the electronic trading platforms of the various custodian banks that act as custodian for the Separate Accounts and the Fund. WCM may recommend that Separate Account Clients establish brokerage accounts with Fidelity Investments ("**Fidelity**"), a registered broker-dealer, member SIPC, to maintain custody of a client's assets and to affect trades for the client's Separate Account. WCM is independently owned and is not affiliated with Fidelity. WCM does not utilize any of Fidelity's research services and does not compensate Fidelity for any services other than commissions incurred by WCM affiliated accounts for which Fidelity acts as custodian. Separate Account Clients who use Fidelity as their custodian will be charged a commission by Fidelity for trades that WCM affects for those accounts. WCM does not receive or participate in any fees or commissions charged by Fidelity.

If a Separate Account Client selects a custodian other than Fidelity, (1) WCM may not have the ability to negotiate trading commission rates with that custodian, which may result in the Separate Account client paying a higher commission rate than other WCM clients; (2) trades for the client's Separate Account will not be executed as part of WCM's "block trade" for such security; and (3) the client may not receive the most favorable execution for its account. Clients who direct WCM to use specific custodians or broker/dealers should evaluate whether the client will be receiving quality trade execution, clearance and settlement capabilities, as well as custodial fees and trading commissions that are comparable to those otherwise available within the industry.

WCM endeavors to obtain best execution of securities transactions at prices that are advantageous to the client, and that incur reasonable, competitive commission charges.

WCM does not use "soft dollars". In other words, WCM does not negotiate with the brokers/trading platform providers we utilize to charge our clients a higher overall commission rate, and then use these client-funded excess commission dollars to pay for a portion of WCM's business operating expenses.

### **Trade Rotation Policy**

WCM implements a trade rotation policy. The trade rotation policy sequences each Separate Account client that was not aggregated into our discretionary trading block order onto a rotating list defining the timing of trade order entry. In those situations in which WCM is trading the same security on the same day in both the Fund and the Separate Accounts, the Fund typically trades as one of the constituents of our discretionary trading block, and it receives the same pricing and execution as the Separate Accounts.

The trade rotation list consists of each custodian bank/trading platform that serves as custodian for WCM's Separate Accounts. All clients who share a particular custodian are treated as part of the same block on the trade rotation schedule. The execution of trades is rotated among the various custodian banks for the Separate Accounts. If a trade for a particular rotation is not completed during the trading day, any remaining portion of the trade will be completed on the following day(s) before any trade in the same security may be initiated for the next constituent in the trade rotation. After a trade involving more than one constituent in the trading rotation has been completed, the rotation is re-ordered and the next constituent in the rotation is put first on the list for the next implementation of trades.

## **Investment Opportunity Allocation**

Wallace Capital attempts to ensure that all investment opportunities offer adequate market liquidity such that all clients for whom a particular investment is deemed by WCM to be suitable may fully participate. As investment opportunities are undertaken, whenever possible, the opportunity is allocated pro-rata across all client accounts with the same investment objectives and risk tolerance, subject to client-specific guidelines and restrictions.

Due to the wide dispersion among the investment objectives, risk tolerance, time horizon, and financial situation of its clients, WCM does not utilize a “model portfolio” approach to its management of the Separate Accounts. This means that not all securities WCM purchases are appropriate for every Separate Account. As a result, the holdings of one or more Separate Accounts (even those with similar inception dates) may be materially different from one another.

As discussed in Item 7 above, at various points in time, the holdings of the Fund and those of one or more Separate Accounts may include many of the same securities, or they may be materially different. To the extent they are different, these differences arise from the fact that WCM does not manage our clients’ accounts using a “model portfolio” approach. Each Separate Account (including the Fund) is constructed and managed according to what WCM deems to be an appropriate investment for each client (and the Fund clients) at the time each investment decision is made. Similarly, to the extent the Fund and one or more Separate Accounts hold the same security, WCM may purchase such securities for the Fund and for one or more Separate Accounts on different dates.

In some instances, typically involving securities with very low trading volume in which WCM is only able to purchase or sell a portion of a trade order, a pro-rata allocation would not be in one or more clients’ best interest due to the amount of the commission paid by the client(s) relative to the small size of the allocation. This is due to the fact that the vast majority of the trades we execute on behalf of clients are charged a commission on “per trade” basis rather than a “per share” basis. As a result, in such instances where only part of a trade order can be filled, WCM allocates the order from the smallest accounts to the largest until the entire trade order is fulfilled. In these instances, shares are allocated to WCM-affiliated accounts after all non-affiliated accounts have received their full allocation.

### **Item 13 – Review of Accounts**

All of WCM's accounts are reviewed, at a minimum, on a quarterly basis. Each review is a comprehensive review to make sure the securities held in the account are consistent with the client's investment objectives.

There are two reviewers on all accounts: Scott Wallace and Chris Thomason. Both reviewers perform reviews on all accounts.

On a quarterly basis, WCM sends its clients a written report which reflects the amount of the client's Separate Account balance (or capital account balance in the case of Fund investors) as of the most recent quarter-end, as well as a written commentary containing WCM's perspective on the stock market, the economy, etc.

### **Item 14 – Client Referrals and Other Compensation**

From time to time, WCM may engage third parties to assist WCM in obtaining new clients. Such arrangements are structured to comply with the applicable rules of the Investment Advisor's Act of 1940. The compensation arrangements between WCM and any such third party will not result in the client incurring any additional cost.

### **Item 15 – Custody**

Separate Account clients should receive (on a quarterly basis) statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. WCM urges its Separate Account Clients to carefully review such statements and compare such official custodial records to the account statements that WCM provides its Separate Account Clients on a quarterly basis. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

## **Item 16 – Investment Discretion**

WCM receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting which securities to buy and determining the appropriate share amount to purchase, WCM observes the written investment policies, limitations and restrictions (if any) of the clients for whom it advises.

Investment guidelines and restrictions must be provided to WCM in writing.

## **Item 17 – Voting Client Securities**

WCM serves as the investment advisor to its Separate Account Clients and serves as the general partner and investment advisor to the Fund. In the investment advisory agreement between WCM and its Separate Account Clients and in the limited partnership agreement of the Fund, WCM is granted the authority to vote proxies received from the publicly traded companies owned in the Separate Accounts and the Fund. In order for WCM to be able to receive the information necessary to vote proxies on behalf of Separate Account Clients, those clients must direct their custodian in writing to send all proxy voting related materials (proxy statements, ballots, etc.) to WCM. In the event that a Separate Account Client fails to direct the custodian to send proxy voting information to WCM, WCM will be unable to vote proxies on such client's behalf.

WCM determines how to vote a particular proxy after reviewing the proxy materials and any other materials that may be necessary or beneficial to voting. WCM votes in a manner that it believes reasonably furthers the best interests of the client, and in which WCM believes is consistent with the investment objectives as set forth in the relevant investment management documents.

As a general rule, WCM votes in favor with the recommendations of the company's board of directors. The major proxy-related issues generally fall within five categories: (1) corporate governance; (2) takeover defenses; (3) compensation plans; (4) capital structure; and (5) social responsibility. WCM will cast votes for these matters on a case-by-case basis. WCM will generally vote in favor of matters that follow a reasonable corporate strategic direction, support an ownership structure that enhances shareholder value without diluting management's accountability to shareholders, and/or presents compensation plans that are commensurate with enhanced manager performance and market practices.

If a proxy vote creates a material conflict between the interest of WCM and a client (e.g. if WCM were to own the stock of a publicly traded company and such company was also a client of WCM), WCM will address the conflict before voting the proxy. WCM will either disclose the conflict to the client in question and obtain consent, or take other steps designed to ensure that a decision to vote the proxy was based on WCM's determination of the client's best interest and was not the product of the conflict.

Clients may obtain a copy of WCM's complete proxy voting policies and procedures upon request. Clients may also obtain information from WCM about how WCM voted any proxies on behalf of their account(s).

#### **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about WCM's financial condition. WCM has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

#### **Item 19 – Requirements for State-Registered Advisers**

WCM is not a state-registered investment advisor, and thus the requirements of this Item 19 do not apply to WCM.