

MAPLatitude

Appendix 1



Waddell & Reed, Inc.
SEC File Number: 16720
Appendix 1 of Part 2A of Form ADV
MAPLatitude
The date of this Appendix is: April 1, 2013

This appendix provides information about the qualifications and business practices of Waddell & Reed, Inc. If you have any questions about the contents of this appendix, please contact us at (1-888-Waddell and/or financialplanning@waddell.com). The information in this appendix has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority

Additional information about Waddell & Reed, Inc. is also available on the SEC's website at www.adviserinfo.sec.gov.

Waddell & Reed, Inc. is a Federally registered Investment Advisor and a broker-dealer and member of FINRA.

Note: Registration with the SEC as an Investment Advisor does not imply a certain level of skill or training.

This appendix and the services and fees described in this appendix are all subject to change without prior notice to you.

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For more information about Waddell & Reed, Inc. please visit our website at www.waddell.com

Disclosure Required by SEC Rule 206(4)-2:

If you invest in an advisory account through Waddell & Reed, Inc., your funds and securities will be held in a separate mutual fund account owned and controlled by you and/or in a separate brokerage account at Pershing LLC, a qualified custodian. Below are the addresses for Waddell & Reed Services Company, the transfer agent for the Waddell & Reed Advisors Funds and the Ivy Funds ("Transfer Agent"), and Pershing LLC:

Waddell & Reed Services Company
6301 Glenwood
Overland Park, KS 66202

Pershing LLC
One Pershing Place
Jersey City, NJ 07399

From time to time investors in our advisory accounts may receive reports directly from their Financial Advisors. These reports may include lists or summaries of your account holding, including funds and securities. We urge you to compare these reports to the official account statements of your account holdings provided at least quarterly by the Transfer Agent and/or Pershing LLC to ensure that the fund and securities holdings listed on these reports provided by your Financial Advisor match the fund and securities holdings reflected on the official account statements

Summary of Material Changes

This is an annual amendment filing relating to Part 2A of the disclosure brochure of form ADV.
This filing is made as of April 1, 2013.

Since our last part 2A filing W&R Inc. has updated this brochure to include information related to its managed account programs. Items that have been updated include:

1. Class A mutual fund shares that have already paid a front-end sales charge are eligible to move to a client's MAP program three (3) years after the date of original purchase.
2. Additional disclosure has been provided describing the firm's revenue sharing arrangements.
3. Additional money market sweep account options have been made available
4. In specific situations W & R now allows limited investment discretion services to be offered by qualified and approved advisors
5. Disciplinary information has been updated

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Services, Fees and Compensation

Introduction

Waddell & Reed, Inc. (“Waddell & Reed”) is a securities broker-dealer and investment advisor serving clients nationwide. Waddell & Reed emphasizes comprehensive financial planning and provides a variety of personal financial services and investment opportunities. Through the financial planning process, Waddell & Reed Financial Advisors can help clients identify their unique financial goals and develop a plan to meet those goals. And, Waddell & Reed Financial Advisors have access to a broad array of investment and insurance products and services that can help satisfy their clients’ planning needs.

Waddell & Reed sponsors a non-discretionary wrap fee investment advisory program known as MAP Latitude (the “Program”). Waddell & Reed offers other investment advisory programs and services. However, only the Program is described in this appendix.

Description of the Program

The Program is a non-discretionary wrap fee investment advisory product designed to provide you with a full array of advice, guidance and flexibility in one bundle with one annual asset-based fee. The ongoing advice provided by your advisor is one of the key components of the Program. Before selecting the Program, clients are encouraged to first (i) together with your Financial Advisor establish strategic investment goals, which may include participating in a comprehensive financial planning process; (ii) place a high value on the ongoing advice from a professional Financial Advisor with respect to the selection of investment strategies and investment products, but retain the ultimate authority and responsibility to make investment decisions; (iii) want to participate in a medium-to-long-term investment strategy; and (iv) believe that a fee-based pricing model better aligns the interests of you and your Financial Advisor.

Product mix is important to consider when evaluating the Program. For example, while mutual funds are purchased at NAV with no sales charge, purchasing the same mutual funds in a commissionable account could be more cost efficient if you qualify for breakpoint discounts that reduce the sales charge below the asset-based fee the client will incur in the Program. The Program may also not be appropriate for you if you consistently maintain high levels of cash or money market fund reserves, as Program fees will be charged on cash balances. The Program will not be made available to you if you engage in day trading or other types of aggressive, frequent trading activity. You should also remember that securities transactions in Program accounts may have substantial tax consequences. Therefore, Waddell & Reed strongly recommend that you consult with their tax advisor before establishing a Program account.

Establishing a Program Account

Once you and your Financial Advisor agree that a Program account is consistent with your overall investment objectives, you will be asked to complete, among other things, a Waddell & Reed New Account Form and Program Advisory Services Agreement (“Services Agreement”). You will be asked to complete a Risk Tolerance Questionnaire and select a model portfolio consistent with your RTQ score. As the Program is non-discretionary, your advisor will rely solely on the accuracy of the information you provide to recommend specific securities and trading strategies. It is your responsibility to inform your advisor of any material changes in your investment objective, financial situation, or risk tolerance. If you inform your advisor of material changes, your advisor

may recommend changes in your investment strategy, which will require the completion of a revised RTQ and services agreement. If you concentrate your Program account in a limited number of securities or securities of the same or affiliated issuers, you may not be pursuing a fully diversified strategy. As such, concentrating investments in a Program account should not be considered as a diversified asset allocation plan to investing, but rather should be viewed only as the equity or fixed income portion, as applicable, of your overall portfolio, which may include investments not held with Waddell & Reed.

The Services Agreement provides that you and we have the right to terminate your Program account upon certain terms and conditions. You should note that termination of your Program account will end our investment advisory fiduciary relationship with you and will cause your account to be converted to, and designated as a brokerage account. Your Services Agreement will no longer apply to your new brokerage account and it will be governed solely by the terms and conditions of the Customer Agreement that is attached to and incorporated into the new account form you will complete.

Investment Profile Descriptions

Waddell & Reed Services Agreement provides five general model portfolios for Program accounts. Currently Waddell & Reed requires clients to select one of the these five model Portfolios listed below:

- 1. Conservative** - Clients that elect Conservative have as their primary investment goal a relatively predictable stream of current income. Their tolerance for risk is low and they seek investments that will, to the extent possible, protect their principal investment from market fluctuations. Due to the flexibility of the MAPLatitude program, clients in the Conservative risk category may have allocations that may vary as far as those permitted in the Moderate Conservative risk category. Clients should ensure they are familiar with the risks of a Moderate Conservative portfolio as that may be their experience due to shifting allocations that could be in the Moderate Conservative range.
- 2. Moderate Conservative** - Clients that elect Moderate Conservative have as their primary investment goal a higher stream of current income with some growth potential. Their tolerance for risk is low to moderate and they are willing to accept low to moderate loss of principal during market fluctuations, unexpected business failure and losses due to fluctuating interest rates. Due to the flexibility of the MAPLatitude program, clients in the Moderate Conservative risk category may have allocations that may vary as far as those permitted in the Conservative or Moderate risk categories. Clients should ensure they are familiar with the risks of a Conservative and a Moderate portfolio as that may be their experience due to shifting allocations that could range from Conservative to Moderate.
- 3. Moderate** - Clients that elect Moderate have as their primary investment goal both appreciation of their principal investment and current income. Their tolerance for risk is moderate and they are willing to accept moderate loss of principal during market fluctuations, or loss of principal and illiquidity in return for higher yield and potential capital appreciation. Due to the flexibility of the MAPLatitude program, clients in the Moderate risk category may have allocations that may vary as far as those permitted in the Moderate Conservative or Moderate Aggressive risk categories. Clients should ensure they are familiar with the risks of a Moderate Conservative and a Moderate Aggressive portfolio as that may be their experience due to shifting allocations that could range from Moderate Conservative to Moderate Aggressive.

- 4. Moderate Aggressive** - Clients that elect Moderate Aggressive have as their primary investment goal appreciation of their principal investment. They are willing to accept moderate to high risks, potential loss of principal during market fluctuations and illiquidity in return for the higher potential for capital appreciation. Due to the flexibility of the MAPLatitude program, clients in the Moderate Aggressive risk category may have allocations that may vary as far as those permitted in the Moderate or Aggressive risk categories. Clients should ensure they are familiar with the risks of a Moderate and an Aggressive portfolio as that may be their experience due to shifting allocations that could range from Moderate to Aggressive.
- 5. Aggressive** - Clients that elect Aggressive have as their primary investment goal rapid appreciation of their principal and short-term trading profits. They are willing to accept very high risk and loss of their entire principal during market fluctuations. Due to the flexibility of the MAPLatitude program, clients in the Aggressive risk category may have allocations that may vary as far as those permitted in the Moderate Aggressive risk category. Clients should ensure they are familiar with the risks of a Moderate Aggressive portfolio as that may be their experience due to shifting allocations that could be in the Moderate Aggressive range.

The model portfolio you select should guide the investments you select for your program account. You should periodically monitor the investment allocation of your portfolio to ensure it remains consistent with your risk tolerance and investment objective. Deviations from the originally selected investment allocations will occur due to, among other things, fluctuations in the market value of securities in the portfolios and restrictions you may impose on your program account. It is your responsibility, with guidance from your advisor, to ensure that the program account investment portfolio consistently reflects your RTQ score.

Waddell & Reed will effect transactions for your Program account only as directed by you and neither Waddell & Reed nor your Financial Advisor will have any discretionary authority to effect transactions in a Program account except as discussed later in the "Investment Discretion" section.

Class A shares on which a load was originally paid may be invested in the Program only if the transaction(s) in which the shares were acquired occurred at least three years prior to the execution of your Service Agreement.

Fees and Other Charges

You will pay an ongoing asset-based fee on assets in the Program account. The asset-based fee is negotiable on an advisor-by-advisor and account-by-account basis. The maximum annual fee that may be charged Program accounts is 2.25% of assets under management and the minimum is .75% of assets under management. Fees are billed and collected quarterly in advance. Fees are computed on the market value of the account on the last day of the previous quarter. Fees will be automatically deducted from the client's Program account(s). Nevertheless, quarterly fees will not be generated by liquidating securities if such liquidation would cause a contingent deferred sales charge. The wrap fee you pay for the Program covers the services of your advisor, trading and execution, custody, performance reporting and related Program account services. If you terminate your Program account prior to a quarter's end, any unearned fee will be refunded to you on a pro-rata basis. Mutual funds in the Program generally pay an ongoing distribution and service (12b-1) fee to Waddell & Reed. This 12b-1 fee will be paid from the date the mutual fund shares are purchased. Fees assessed in connection with the Program are in addition to portfolio management and other fees and expenses charged by mutual funds and ETFs in a Program account. A portion of the asset-based fees you pay for advisory services in connection with the Program will be paid to your Financial Advisor and a portion will be paid to Waddell & Reed.

Flow Billing

As clients add and withdraw money from the MAPLatitude program described in this appendix, their accounts may not be charged immediately. At account inception, the amount billed will be contingent on the fee agreed upon between the client and advisor and the number of days remaining in the quarter. Thereafter, clients will be billed at the beginning of the quarter in advance. Flow billing refers to any deposits or withdrawals from the account of over \$1,000 during the quarter and after account inception. At the beginning of the quarter (starting in January 2011), an analysis is done to calculate the effect flows into and out of the account should have had on your fee for the previous quarter. These are then billed as adjustments to your quarterly fee. If you have questions about your fees charged in any of our programs, please contact your Financial Advisor.

Important Disclosures Regarding Wrap Fee Programs

Certain services provided in connection with the Program are available to clients outside the Program at no charge. Also, depending on your investment objective, you may find that the individual components of the Program are available to you outside the Program for more (or less) than you pay in the Program. You should discuss all of your investment options with your advisor before choosing to invest in the Program. Several factors may affect whether the Program costs are more or less than the costs of a traditional brokerage account, including trading strategy, types of securities purchased, whether the investments carry additional administrative or management fees, volume of trading, total expenses associated with trading the investments selected and the actual costs of the services utilized if purchased separately. Cash positions, including money market funds and sweep accounts, are subject to the Program fee. You should take this into account when selecting an appropriate investment objective.

Minimum Account Value

Except as provided below, the minimum account size to establish a Program account is \$50,000 for each Program account. Waddell & Reed has the right, in its sole discretion, to terminate the Service Agreement for Program accounts that fall below the minimum account value, require that additional assets be deposited in the Program account to bring the account up to the minimum, or change the minimum at any time. If the aggregate value of the Waddell & Reed advisory accounts maintained by a household, defined as two or more investors sharing the same address of record, exceeds \$250,000, the minimum account value to establish a Program account is \$40,000 for each Program account.

Program Restrictions

You will not be permitted to accumulate a position in any Program account that exceeds 25% of the overall Program account value. To the extent that any Program account accumulates a concentrated position that exceeds 25% of the overall portfolio value, Waddell & Reed may require you to sell a sufficient amount of the concentrated position to bring the position value below the concentration limit. On a case-by-case basis, a greater than 25% position may be permitted in an inherently diversified security (e.g., mutual funds, ETFs, etc.). You may not execute more than 100 trades per calendar year in a Program account. For purposes of this restriction a sell followed by a buy constitutes two trades. Waddell & Reed may, in its sole discretion, terminate Program accounts that exceed the maximum trading limit, exercise its discretion to permit you to exceed the trading limit under certain market conditions, or terminate Program accounts that fail to trade at least periodically during any calendar year.

Redemption Fees for Active Trading

Mutual funds purchased in Program accounts may charge redemption fees if shares are redeemed within a certain period of time after they are purchased (also known as active trading or market timing). These fees may also apply to the redemption side of a mutual fund exchange transaction where shares are exchanged among funds (whether through direct exchanges or sales and new purchases) in the same fund family more frequently than permitted by prospectus. Redemption fees and their application vary from fund to fund. Questions about redemption fee policies should be directed to your advisor.

Funding Program Accounts

You may fund Program accounts with cash, eligible securities, ineligible securities or a combination. Eligible securities that do not fit within your investment objective may be liquidated by Waddell & Reed without notifying you. Ineligible securities that are permitted to be initially deposited into a Program account must be liquidated or moved to a non-advisory account that permits the holding of such securities within fifteen (15) days. Failure to do so may result in the termination of the Program Service Agreement. Although these transactions will be free of commissions, they may result in redemption/CDSC charges and taxable gains or losses. Waddell & Reed may not accept eligible securities into a Program account if the securities have not been owned by the client for a specified period. You must discuss these limitations with your Financial Advisor before selecting eligible securities for deposit into your Program account.

Eligible and Ineligible Securities

Although Ineligible Securities may be deposited into a program account, Waddell & Reed permits you to hold only eligible securities in Program accounts. Waddell & Reed currently groups securities into two categories: 1) Eligible Securities include generally listed equities and equities approved for trading on Nasdaq NMS, investment grade municipal and corporate bonds, U.S. Government and Agency securities, covered call options, long put options, ETFs (except leveraged and inverse ETFs), listed (sponsored) ADRs, approved UITs, traded (public) REITs, open and approved closed-end mutual funds and approved money market funds. Institutional mutual fund share classes (e.g., Class I, Y, etc.) may be transferred into a Program account from another firm, but subsequent purchases into institutional share classes will not be permitted. 2) Ineligible Securities consist generally of fixed and variable insurance products, private partnership and other private placement securities, Non-traded REITs, syndicated offerings (whether public or private), reverse repos, alternative investments such as hedge and private equity funds, floating or auction rate securities, structured products such as CDS, ARS and CDO securities, commodities and futures (including commodity pools and managed futures), securities traded on the OTCBB Market, direct, Rule 144 stock, stock options, warrants with no trading market, naked or index options, unrated bonds, SMAs, leveraged or inverse ETFs, mutual fund Class B or C shares and such other securities as Waddell & Reed may determine from time to time in its sole discretion.

If you deposit ineligible securities in a Program account, you may move the securities to a traditional brokerage account with Waddell & Reed, to the extent Waddell & Reed permits you to hold such securities in a brokerage account, or transfer the securities to an account with another broker-dealer. If you decide to hold ineligible securities in a traditional brokerage account with Waddell & Reed, you do so with the knowledge that neither Waddell & Reed nor your Waddell & Reed financial advisor will give you investment advice with respect to those ineligible assets. You should speak to your Waddell & Reed Financial Advisor before transferring in or purchasing securities with a view towards depositing those securities in your Program account to ensure the securities will be eligible.

Margin

Clients may, if Waddell & Reed determines the client is creditworthy and suitable, use margin to purchase marginable securities in a Program account. Using margin in a fee-based investment advisory account is a more aggressive, higher risk approach to pursuing investment objectives. Margin will only be permitted for clients in a Moderate Aggressive or Aggressive MAPLatitude model and margin will not be allowed in accounts associated with a Conservative, Moderate Conservative or Moderate model portfolio. Before clients decide to use margin in a Program account, they must carefully consider whether or not they can afford - and want - to assume the additional risk in recognition that losses may be significantly greater than if borrowed funds were not used. The use of leverage will increase the cost, as well as the risks, associated with a Program account and may make it much more difficult to achieve investment objectives. If margin is approved for a Program account, clients will pay interest to Pershing on outstanding loan balances but will not pay asset-based fees on such balances. Waddell & Reed may also receive a portion of the interest paid to Pershing. The decision to use margin rests solely with the client and should only be pursued to the extent that the client fully understands and appreciates the risks of margin borrowing, the impact of the use of borrowed funds on a Program account and how the use of margin may affect the Program account's performance; specifically, clients may lose more than their original investment. Likewise, positive or negative performance of a margined Program account, net of interest charges and asset-based fees, will be magnified by virtue of using margin. Clients will not benefit from using margin in a Program account unless the performance of the account exceeds the interest expense and asset-based fees.

Principal Transactions and Agency Cross Transactions

Advisors currently may not execute principal or agency cross transactions for Program accounts.

Execution of Transactions

Transactions in Program accounts will be executed exclusively through Waddell & Reed's clearing broker-dealer, Pershing, LLC. Waddell & Reed regularly monitors Pershing's execution quality. We believe Pershing provides highly competitive execution quality based on (i) speed and certainty of execution; (ii) price and size improvement; and (iii) overall execution quality.

Custody of Program Accounts

Assets managed in Program accounts will be custodied in brokerage accounts held by Pershing LLC. Waddell & Reed has entered into a fully-disclosed clearing agreement with Pershing, LLC pursuant to which Pershing LLC has agreed to custody the brokerage account assets of Waddell & Reed's clients and to execute certain securities transactions on behalf of those clients. Pershing LLC will act as the sole custodian for all assets in Program accounts. Pershing LLC will perform all custodial functions customarily performed for brokerage accounts, including but not limited to crediting of interest and dividends. You will retain ownership of all cash and securities in the Program accounts, which will be reflected on the books and records of Waddell & Reed. If you have other brokerage accounts at Pershing, any fees charged for maintenance of those accounts will be separate from and in addition to fees charged for Program accounts. You must consider before electing to participate in the Program that, by using Pershing LLC as the custodian of their Program assets, you may pay higher account-related fees and execution charges, and may not always receive as favorable executions as investors who participate in fee-based asset management products similar to the Program but who have the ability to select the broker-dealer or other platform to custody their assets and execute their transactions.

Trade Errors

Waddell & Reed has a trade error procedure to resolve trading errors that may occur in Program accounts. Corrections are reviewed and approved by appropriate operations personnel. Corrections will be processed in a timely manner and will not adversely affect a client in a material way. Waddell & Reed maintains an error account to facilitate handling trade errors. Gains may be offset by losses in the error account.

Valuation

Waddell & Reed relies primarily on third party quotation services, including services provided by Pershing LLC to determine the value of securities in Program accounts. If a price is unavailable or believed to be unreliable, we may determine the value in good faith. If your portfolio strategy includes mutual funds, shares of Waddell & Reed Mutual Funds will be valued at their respective net asset values on the valuation date calculated in accordance with the respective Mutual Fund's prospectus. Shares of other mutual funds will be valued at their net asset values on the valuation date as provided by pricing sources that Waddell & Reed believes to be reliable. This pricing information may not be accurate, complete or provided in a timely manner. If the net asset value for a particular mutual fund's shares is not available for the valuation date, the most recent available net asset value will be used.

Benchmark Selection

Due to the non-discretionary nature of the Program, performance reviews with your Financial Advisor may illustrate the performance of your Program account using the historical performance of certain broad equity and fixed income market indexes that are readily recognized but which may not be absolutely correlated with the make up of the Program account. You may designate an index you believe provides a more direct comparison to the performance of your Program account. Depending on the composition of a Program account and your chosen portfolio strategy, these broad indexes may not be an appropriate measure for comparison purposes. Therefore, you must understand that such comparisons are provided for illustration only. As a result, the performance of a particular portfolio strategy may vary significantly from the chosen index.

Termination

The Program Service Agreement may be terminated at any time by the client upon written notice to Waddell & Reed as provided in the Service Agreement and upon thirty days prior written notice by Waddell & Reed. If you terminate the agreement, you will receive a pro rated refund of their asset-based fee. Upon termination Waddell & Reed will, unless otherwise instructed by you, move the securities holdings in your Program account into a traditional brokerage account until the client provides instructions to either liquidate the securities, hold the securities in a brokerage account at Pershing LLC or transfer the securities to another broker-dealer or custodian. This process may have adverse tax consequences for taxable accounts.

Important Disclosures Regarding Wrap Fee Programs

Certain services provided in connection with the Program are available to you outside the Program at no charge. Also, depending on your investment objective, you may find that the individual components of the Program are available to you outside the Program for more (or less) than you pay in the Program. You should discuss all of your investment options with your advisor before choosing to invest in the Program. Several factors may affect whether the Program costs are more or less than the costs of a traditional brokerage account, including trading strategy, types of securities purchased, whether the investments carry additional administrative or management fees, volume of trading, total expenses associated with trading the investments selected and the actual costs of the services utilized if purchased separately. Cash positions, including money market funds and sweep accounts, are subject to the Program fee. You should take this into account when selecting an appropriate investment objective.

Amendment of Program

Waddell & Reed may change, modify or terminate the Program at any time in its sole discretion.

Account Requirements and Types of Clients

Account Requirements

Please read carefully "Services, Fees and Compensation" above for a detailed discussion of account minimums.

Client Types

Waddell & Reed typically provides investment advice to the following clients:

- Individuals
- Certain pension and professional plans
- Trusts, estates and charitable organizations
- Certain corporations and business entities not included in the categories above

Portfolio Manager Selection and Evaluation

Advisory Services Generally

Waddell & Reed offers various types of investment advisory services, including:

- Financial Planning
- Asset Allocation Programs
- Wrap Fee Programs

We attempt to tailor each of our investment advisory services to your individual personal, financial and investment needs. We do this by requiring you to complete a new account form that captures your personal financial information, risk tolerance and investment objectives, among other things.

You can impose reasonable restrictions on the securities they select in your Program account and on the investment style you pursue because you make all investment decisions and the Program provides multiple investment options.

Performance-Based Fees and Side-By-Side Management

Waddell & Reed does not charge performance-based fees or engage in side-by-side investment management.

Methods of Analysis, Investment Strategies and Risk of Loss

Waddell & Reed typically recommends a broad asset allocation strategy across a number of diverse asset classes.

Asset allocation is one investment style that may assist you in determining if you have an appropriate mix of investments for your personal investment needs. Development of a personalized asset allocation is designed to position your assets in accordance with your financial objectives, time horizon and risk tolerance.

If you have a substantial amount of your net worth concentrated in one or a small number of investment products or asset classes, the asset allocation process we use may prompt your Financial Advisor to recommend that you sell those investments and asset classes. It is always important to consult your tax and legal advisors before making significant changes to your investments because these changes may cause you to incur adverse tax consequences. Neither Waddell & Reed nor your Financial Advisor can provide the specialized, detailed legal and tax advice necessary to ensure that you avoid adverse tax consequences in these situations.

The Program enables you to assume much greater risk by selecting from a broad array of investments and by selecting and pursuing higher risk investment strategies. You have substantial freedom to choose the securities in which you invest and the investment strategy you pursue within the limits associated with the Program.

The Program, depending on the securities you select and the investment style(s) you pursue, may present a significant risk of loss. The securities you select may present significant or unusual risks of loss.

Voting Client Securities

Waddell & Reed does not accept authority to vote your securities proxies

Client Information Provided to Portfolio Managers

You may only participate in the Program through your Waddell & Reed Financial Advisor. Your Financial Advisor is not the Program portfolio manager, because the Program is not managed on a discretionary basis. You and your Financial Advisor jointly make all investment decisions and product selections from the list of eligible securities. Please refer to “Services, Fees and Compensation”, “Description of the Program” and “Eligible and Ineligible Securities” above. You are encouraged to contact your Financial Advisor anytime you have a material change in your financial situation, investment objectives and/or risk tolerance.

Client Contact with Portfolio Managers

Waddell & Reed places no restrictions on your ability to contact and consult with your Financial Advisor. You are encouraged to contact your Financial Advisor regularly and anytime you experience material changes in your financial situation, investment objectives and/or risk tolerance.

Additional Information

Disciplinary Information

On April 13, 2000, a letter of Acceptance, Waiver and Consent (No. C11000007) was approved by NASD Regulation, Inc. ("NASD") relating to conduct of three (3) of Waddell & Reed's Financial Advisors with respect to their misuse of account transaction request forms. The NASD found Waddell & Reed failed to establish, maintain and enforce written supervisory procedures reasonably designed to achieve compliance with the applicable securities laws and regulations and with applicable NASD rules relating, among other things, to forgery, unauthorized transactions and misappropriation. The NASD also found Waddell & Reed failed to respond adequately, and take appropriate action, to supervise its registered representatives, when confronted with evidence of problems in the above-referenced areas, that was reasonably designed to prevent the violations by the registered representatives.

On April 29, 2005, Waddell & Reed entered into a Decision & Order of Offer of Settlement with the NASD Department of Enforcement ("DOE") settling a regulatory action brought by the DOE on January 14, 2004 (Case No. CAF040002) alleging that Waddell & Reed violated NASD Conduct Rules 2110, 2310, 3010 and 3110, and § 17(a)(1) of the Securities Exchange Act of 1934 and Rule 17a-3(A)(6) hereunder, relating to exchanges made by certain of its clients of their variable annuity policies. The DOE alleged that Waddell & Reed failed to take adequate steps to determine whether there were reasonable grounds for the clients to enter into the exchanges, such as determining whether the clients were likely to benefit or lose money from the exchanges, failed to establish sufficient guidance for the sales force to use in determining the suitability of the exchanges, failed to establish and maintain supervisory procedures or a system to supervise the activities of its advisors that was reasonably designed to achieve compliance with the requirements of the NASD's suitability rule, and failed to maintain books and records regarding orders for unexecuted variable annuity exchanges. Without admitting or denying the allegations, Waddell & Reed agreed to be censured, pay a fine of \$5 million and pay client restitution of \$11 million. Waddell & Reed also entered into a global settlement with state regulators in connection with the NASD settlement. Without admitting or denying the state's allegations, Waddell & Reed agreed to pay \$2 million fine and additional client restitution.

On July 24, 2006, Waddell & Reed entered into settlements with the U.S. Securities and Exchange Commission ("SEC"), the Attorney General of the State of New York ("NYAG") and the Kansas Securities Commissioner ("KSC") resolving their investigations into alleged market timing activities of shareholders of certain mutual funds for which Waddell & Reed serves as principal underwriter and distributor (the "Funds"). Based upon its investigation, the SEC alleged that a subsidiary of Waddell & Reed, Waddell & Reed Investment Management Company ("WRIMCO"), violated Sections 206(1) and 206(2) of the Investment Advisers Act of 1940 (the "Advisers Act") by following certain Fund Shareholders to engage in frequent trading of Fund shares in exchange for fees paid to Waddell & Reed and another Waddell & Reed subsidiary, Waddell & Reed Services Company ("WRSCO"), and that WRIMCO allowed such trading in the Waddell & Reed Advisors International Growth Fund (the "International Fund") despite having been notified that the shareholders were harming the International Fund through dilution and failed to disclose the conflict of interest to the Funds' Board of Directors and shareholders. The SEC also alleged that Waddell & Reed and WRSCO aided and abetted and caused WRIMCO's alleged violations of Sections 206(1) and 206(2) of the Advisers Act by negotiating agreements with the shareholders allowing their trading of the Funds within certain defined limits and

receiving financial benefit therefrom, and that WRIMCO, Waddell & Reed and WRSCO violated Section 17(d) of the Investment Company Act of 1940 (the "40 Act") and Rule 17d-1 thereunder by participating in and effecting transactions in connection with joint arrangements in which the Funds were participants without filing an application with or receiving approval from the SEC. The NYAG alleged that Waddell & Reed's conduct violated the Martin Act, Article 23-A of the General Business Law, § 349 of the General Business Law and § 63(12) of the Executive Law of the State of New York, and the KSC alleged that the conduct of Waddell & Reed, WRIMCO and/or WRSCO violated K.S.A 17-1253(a), 17-1253(b), 17-1254(m)(7), K.A.R. 81-3-1(i)(1) and/or 81-14-5(a). Without admitting or denying the alleged violations, Waddell & Reed agreed with the SEC, together with WRIMCO and WRSCO, to a censure, to cease and desist from violating Sections 206(1) and 206(2) of the Advisers Act, Section 17(d) of the 40 Act and Rule 17d-1 thereunder, to pay to the SEC \$40 million in disgorgement and a \$10 million civil penalty that will be distributed to Fund shareholders, and to implement certain compliance undertakings. Waddell & Reed also agreed with the NYAG to reduce the investment management fees on certain of the Funds by \$5 million per year for five years and to certain Fund governance undertakings, and Waddell & Reed, WRIMCO and WRSCO agreed with the KSC to pay a fine of \$2 million to be used for the education of consumers in matters concerning securities regulation and investments.

On January 15, 2013, a Letter of Acceptance Waiver and Consent (No. 2011029075101) was approved by FINRA relating to the failure of the firm to deliver purchase confirmations for a period of time. The firm failed to deliver numerous purchase confirmations for mutual-fund asset-allocation products accounts (MAP), during a period, and those confirmations would have confirmed multiple mutual fund share purchases that occurred in numerous investment-advisory accounts. Although the failure to deliver purchase confirmations resulted from the actions of a third-party service provider, the firm remained responsible at all times for compliance with its obligations under all applicable securities laws and regulations. The firm's investment-advisory offerings include several MAP accounts. The firm contracts with its subsidiary to act as the transfer agent for the mutual funds that can be held in the MAP accounts and the subsidiary was obligated to send purchase confirmations on behalf of the firm to MAP-account customers. The firm's subsidiary, in turn, contracts with a third-party service provider to generate and deliver those confirmations. Until a certain date, all purchase transactions in MAP accounts resulted in the delivery of contemporaneous trade confirmations. On that date, however, the third-party service provider made a coding change to the software system that it provided to the subsidiary and other entities. The third party did not intend for the coding change to affect the MAP accounts in any way, and neither the subsidiary nor the firm requested the change. Nonetheless, one effect of the coding change was to prevent customers from receiving confirmations when cash in a MAP account was allocated to individual mutual funds. Thereafter, a MAP-account customer contacted a representative of the firm to ask why the firm was no longer issuing fund-allocation confirmations. The representative contacted the subsidiary, but did not alert the firm's compliance department of the situation. The subsidiary conducted an internal review and determined that the subsidiary's coding change had created the problem. The subsidiary also did not apprise the firm's compliance department of the situation at that time. Thereafter, the subsidiary began researching the issue and working on a solution. The subsidiary's initial work did not completely solve the problem and it implemented a second fix, which through subsequent testing verified that the problem was fully resolved. Without admitting or denying FINRA's allegations, Waddell and Reed agreed to a censure and fine of \$75,000 to settle the regulatory action

Other Financial Industry Activities and Affiliations

Waddell & Reed is dually registered as a broker-dealer and Federally registered investment advisor. Your Financial Advisor may offer to sell you on a commission basis either direct at the sponsor, including the Waddell & Reed Mutual Funds, or in brokerage accounts held at Pershing LLC one or more of the individual securities listed below:

- Equities and EFTs
- Certain Municipal Securities
- Certain Commercial Paper
- Certain Corporate Debt Securities
- Certain Brokered CDs
- Variable Life Insurance
- Variable Annuities
- Mutual Fund Shares
- U.S. Government and Certain Agency Securities

Waddell & Reed has material relationships and arrangements that are material to the investment advisory programs discussed in this appendix with the following:

Pershing LLC - Waddell & Reed clears its brokerage business exclusively through Pershing LLC on a fully disclosed basis. Clients that establish brokerage accounts with Waddell & Reed must establish those accounts at Pershing LLC. Clients will be subject to the various account and transaction related costs and fees assessed by Pershing LLC, which may be higher than those charged by other broker-dealers for similar services. Also, Waddell & Reed receives a share of certain charges imposed by Pershing LLC on the brokerage accounts they carry for us.

Waddell & Reed Mutual Funds: Certain conflicts of interest may exist between you and Waddell & Reed and its affiliates if you purchase certain products or services recommended by your Financial Advisor, including the following:

- Generally, Waddell & Reed and its affiliates will receive more overall compensation when you purchase Waddell & Reed Mutual Funds than when you purchase other mutual funds.
- Your Financial Advisor may receive concentrated training and information on products sponsored by affiliates of Waddell & Reed that may cause them to recommend Waddell & Reed Mutual Funds rather than other mutual funds.

Also, the investment managers for the Waddell & Reed Mutual Funds are wholly owned subsidiaries of Waddell & Reed.

Lockwood Advisors, Inc.: Lockwood Advisors, Inc. is an affiliate of Pershing LLC. Waddell & Reed uses Lockwood Advisors, Inc. as a platform for several of the fee-based asset allocation and wrap programs we offer as an investment advisor. Waddell & Reed pays various fees to Lockwood Advisors, Inc. for its services. Waddell & Reed also offers its clients SMA and UMA products sponsored and/or managed by Lockwood Advisors, Inc. Waddell & Reed receives a portion of the fees you pay to participate in these programs.

Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Waddell & Reed has adopted a Code of Ethics. The Code of Ethics is primarily intended to establish specific standards of business conduct and to avoid any actual or potential conflict of interest or any abuse of the positions of trust and responsibility of certain persons considered "Access Persons".

Under the Code of Ethics, Access Persons are, among other things, required to report certain personal securities transactions and holdings, must pre-clear certain securities transactions, are restricted with respect to the timing of certain securities transactions, and are prohibited from making certain investments, all as more specifically provided in the Code of Ethics.

Waddell & Reed, its affiliates and their employees, directors and associated persons are prohibited from misusing, for their personal benefit or for the benefit of other, material nonpublic information.

Persons who violate any portion of the Code of Ethics, including the prohibitions against the misuse of nonpublic information, are subject to sanction, up to and including termination.

Our Financial Advisors may purchase or sell the same general securities (i.e. stocks and bonds) they recommend to you. We review transactions in these securities on an ongoing basis to determine whether our clients receive the best execution. We have guidelines in our Code of Ethics to ensure that you receive the most favorable price in these situations.

Waddell & Reed will provide a copy of its Code of Ethics to any client or prospective client upon written request. Copies of the Code of Ethics may be obtained by writing to:

Waddell & Reed, Inc.
Legal Department
Attention: Code of Ethics
6300 Lamar Avenue
Shawnee Mission, KS 66202

Review of Accounts

Waddell & Reed's supervisory structure includes division offices (sales offices) and regional offices (with supervisory responsibility over multiple division offices). Each division office has a Managing Principal, who is responsible for the day-to-day management of all Financial Advisors assigned to his or her division office, unless this responsibility is delegated to another principal. Each regional office has a Regional Vice President, who is responsible for the general management and oversight of all division offices assigned to his or her region.

Your accounts are reviewed and examined periodically at various supervisory levels of Waddell & Reed. Supervisory Principals in Waddell & Reed's home office determine the suitability of each investment advisory program discussed in this appendix. These home office Supervisory Principals conduct frequent reviews of client accounts for conformity with company policy and procedures.

If you maintain a Program account at Pershing LLC, you will receive quarterly or more frequent account statements and other account reports from Pershing LLC.

Client Referrals and Other Compensation

Please read carefully the "Conflicts of Interest" section above to learn more about how Waddell & Reed and your financial advisor may benefit when you purchase Waddell & Reed Mutual funds. Neither Waddell & Reed nor your Financial Advisor may compensate anyone directly or indirectly for client referrals.

Waddell & Reed offers a wide variety of products and programs including mutual funds, annuities and life insurance and investment advisory products. Waddell & Reed has entered into several arrangements with certain available product companies referred to as revenue sharing arrangements. Although Waddell & Reed strives at all times to place the interest of its clients ahead of its own or those of its officers, directors or representatives ("affiliated persons"), these arrangements could affect the judgment of Waddell & Reed or its affiliated persons when recommending investment products. Because these situations may present a conflict of interest that can affect the judgment of our affiliated persons, W & R believes it is important to make you aware of our revenue sharing arrangements.

Pershing LLC ("Pershing"), a wholly owned indirect subsidiary of The Bank of New York Mellon Corporation ("BNYM"), is a registered broker-dealer and is a member organization of the NYSE and FINRA. Cash balances in your account held at Pershing will automatically be transferred into Waddell & Reed Advisors Cash Management, a money market mutual fund ("WRACM"), unless you direct otherwise. An affiliate of W&R serves as investment manager for WRACM and W & R and certain of its affiliates receive fees in connection with WRACM investments. WRACM is not a bank deposit account and is not FDIC-insured. I understand that I may affirmatively elect to have cash balances in my account swept into options other than WRACM, including an interest-bearing bank deposit account, which is FDIC-insured, and a municipal money market mutual fund, which is not FDIC-insured. I understand that W & R may receive compensation from Pershing, of up to 0.18% of my cash sweep account balance. This fee will reduce the interest rate paid on your Pershing deposit account including the MAP Primary Fund account. By signing the W

& R New Account Form, I acknowledge that I received current disclosure documents for any sweep account options that I have affirmatively elected in lieu of WRACM.

The fees and other compensation earned by Waddell & Reed and your Financial Advisor differ depending on the advice and products that you select. Waddell & Reed and its affiliates receive more revenue from the sale of some financial products and services, particularly the Waddell & Reed Mutual Funds, than from the sale of other products and services. It is more profitable for Waddell & Reed and its affiliates if you purchase the Waddell & Reed Mutual Funds. Employees of Waddell & Reed and its affiliates may indirectly receive higher compensation and other benefits when you purchase these products. In addition, certain products, such as insurance, may pay more total compensation than other products. Waddell & Reed generally also receives more total revenue when the Waddell & Reed Mutual Funds are used inside the asset allocation and Wrap fee programs we sponsor.

Employee compensation (including management and field leader compensation) and operating goals at all levels of Waddell & Reed are tied to varying degrees to Waddell & Reed's overall financial success. As such, management, sales leaders and other employees generally spend more of their time and resources promoting Waddell & Reed affiliated products and services, including the Waddell & Reed Mutual Funds.

Both Waddell & Reed and your Financial Advisor are compensated when you invest in the Program. For more information about compensation to Waddell & Reed and your Financial Advisor, please refer to "Services, Fees and Compensation" and "Fees and Other Charges" above.

Financial Advisors may also charge a fee to prepare a written financial plan from which they may make an investment recommendation. The investment recommendation may be implemented through any financial services firm and need not be implemented through Waddell & Reed. Should you choose to implement the recommendations through Waddell & Reed and its affiliates, you will incur costs in addition to the fees you will pay for your financial plan. Depending on the products or investment advisory services you decide to purchase through Waddell & Reed and its affiliates, you may pay more or less than if you purchased similar products and investment advisory services through other financial services firms.

Neither Waddell & Reed nor your Financial Advisor compensate anyone directly or indirectly for client referrals.

Investment Discretion

In specific situations Waddell & Reed will allow limited investment discretionary services to be offered by qualified and approved advisors to specific approved clients. Within MAP Latitude, you may authorize your Waddell & Reed, Inc (WRI) advisor representative to have limited investment discretion over your account. An advisor must receive written approval from the Waddell & Reed Home Office prior to offering investment discretion services to you. Once an advisor is approved to offer discretion, they must obtain written authorization from you prior to exercising any discretionary authority over your account. This limited discretionary trading authority will be granted in writing in the appropriate client services agreement or via a separate discretionary trading authorization form.

If discretionary authority is granted, it is limited to the ability to purchase and exchange mutual funds and buy or sell general securities within your chosen risk profile and investment model. If your risk profile or model choice needs to be modified, this will require you and your advisor to complete a new Risk Tolerance Questionnaire and a client services agreement prior to changes being made to your existing model. Our advisors are prohibited from having the ability to withdraw funds or securities from your account without your express written permission.

All clients have the ability to place reasonable restrictions on the management of their account including restrictions on the type of securities that can be purchased in the account. Clients may also place reasonable limitations on the discretionary power granted to WRI advisor representatives, so long as the limitations are specifically set forth as an attachment to the client services agreement. Your financial advisor may aggregate securities to be sold and purchased for more than one client to obtain favorable execution to the extent permitted by law. W & R Inc. and your advisor will utilize an institutional average price account that will allocate the trade in a manner consistent with W & R Inc's fiduciary duty to its clients.

This process ensures equal pricing to each client in that each client receives the average price for the aggregate order.

We encourage you to discuss with your advisor representative the positives and negatives of authorizing limited discretion on your accounts.



WADDELL & REED, INC. AND SUBSIDIARIES
(A Wholly Owned Subsidiary of Waddell & Reed Financial, Inc.)

Consolidated Balance Sheet

December 31, 2012

(With Report of Independent Registered Public Accounting Firm Thereon)



KPMG LLP
Suite 1000
1000 Walnut Street
Kansas City, MO 64106-2162

Report of Independent Registered Public Accounting Firm

The Board of Directors
Waddell & Reed, Inc.:

We have audited the accompanying consolidated balance sheet of Waddell & Reed, Inc. and subsidiaries, a wholly owned subsidiary of Waddell & Reed Financial, Inc., as of December 31, 2012, that is filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934, and the related notes to the consolidated balance sheet (consolidated financial statement).

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this consolidated financial statement in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on this consolidated financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statement referred to above presents fairly in all material respects, the financial position of Waddell & Reed, Inc. and subsidiaries as of December 31, 2012, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Kansas City, Missouri
February 27, 2013

WADDELL & REED, INC. AND SUBSIDIARIES
(A Wholly Owned Subsidiary of Waddell & Reed Financial, Inc.)

Consolidated Balance Sheet

December 31, 2012

(In thousands)

Assets

Cash and cash equivalents	\$ 166,454
Cash and cash equivalents – restricted	92,980
Investment securities	71,248
Receivables:	
Funds and separate accounts	29,822
Customers and other	135,413
Due from affiliates	11,497
Deferred income taxes	6,118
Prepaid expenses and other current assets	7,712
Income taxes receivable	3,625
	<hr/>
Total current assets	524,869
Property and equipment, net	67,543
Deferred sales commissions, net	41,496
Deferred income taxes	25,216
Goodwill and identifiable intangible asset	35,095
Other assets	4,918
	<hr/>
Total assets	\$ 699,137

Liabilities and Stockholder's Equity

Accounts payable	\$ 65,605
Payable to investment companies for securities	152,749
Accrued compensation	25,936
Payable to third party brokers	13,472
Other current liabilities	29,030
	<hr/>
Total current liabilities	286,792
Accrued pension and postretirement costs	51,119
Other noncurrent liabilities	20,955
	<hr/>
Total liabilities	358,866
	<hr/>
Commitments and contingencies	
Stockholder's equity:	
Common stock, \$1.00 par value. Authorized, issued, and outstanding 1,000 shares	1
Additional paid-in capital	220,389
Retained earnings	161,354
Accumulated other comprehensive loss	(41,473)
	<hr/>
Total stockholder's equity	340,271
	<hr/>
Total liabilities and stockholder's equity	\$ 699,137

See accompanying notes to consolidated balance sheet

WADDELL & REED, INC. AND SUBSIDIARIES
(A Wholly Owned Subsidiary of Waddell & Reed Financial, Inc.)

Notes to Consolidated Balance Sheet

December 31, 2012

(1) Summary of Significant Accounting Policies

(a) Organization

Waddell & Reed, Inc. (W&R Inc.), a broker-dealer, and subsidiaries (the Company, we, our, and us) derive revenues primarily from investment management, investment product underwriting and distribution, and shareholder services administration provided to the Waddell & Reed Advisors Funds (the Advisors Funds), Ivy Funds Variable Insurance Portfolios (the Ivy Funds VIP), Ivy Funds, which are underwritten by an affiliate, and Ivy Funds InvestEd (InvestEd) (collectively, the Funds), and institutional and separately managed accounts. The Funds and the institutional and separately managed accounts operate under various rules and regulations set forth by the United States Securities and Exchange Commission (the SEC). Services to the Funds are provided under investment management agreements, underwriting agreements, and shareholder servicing and accounting agreements that set forth the fees to be charged for these services. The majority of these agreements are subject to annual review and approval by each Fund's board of trustees and shareholders. Our revenues are largely dependent on the total value and composition of assets under management. Accordingly, fluctuations in financial markets and composition of assets under management can significantly impact revenues and results of operations. The Company is an indirect wholly owned subsidiary of Waddell & Reed Financial, Inc. (WDR), a publicly traded company. Consolidated financial statements of WDR are available.

The Company's underwriting agreements with the Funds allow the Company the exclusive right to distribute redeemable shares of the Funds on a continuous basis. The Company has entered into a limited number of selling agreements authorizing third parties to offer certain of the Funds. In addition, the Company also receives Rule 12b-1 asset-based service and distribution fees from certain of the Funds for purposes of advertising and marketing the shares of such funds and for providing shareholder-related services. The Company must pay certain costs associated with underwriting and distributing the Funds, including commissions and other compensation paid to financial advisors, sales force management, and other marketing personnel, compensation paid to other broker-dealers, plus overhead expenses relating to field offices, sales programs, and the costs of developing and producing sales literature and printing of prospectuses, which may be either partially or fully reimbursed by certain of the Funds. The Funds are sold in various classes that are structured in ways that conform to industry standards (i.e., front-end load, back-end load, level-load, and institutional).

The Company operates its investment advisory business and its transfer agency and accounting services business through its primary subsidiaries, Waddell & Reed Investment Management Company and Waddell & Reed Services Company, respectively.

(b) Basis of Presentation and Consolidation

The accompanying consolidated balance sheet is prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The accompanying consolidated balance sheet includes the accounts of the Company and its subsidiaries, all of which are wholly owned. Intercompany transactions and balances are eliminated in consolidation. The Company has

(Continued)

WADDELL & REED, INC. AND SUBSIDIARIES
(A Wholly Owned Subsidiary of Waddell & Reed Financial, Inc.)

Notes to Consolidated Balance Sheet

December 31, 2012

evaluated subsequent events through February 27, 2013, the date that this financial statement was issued and determined there are no other items to disclose.

(c) *Use of Estimates*

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

(d) *Cash and Cash Equivalents*

Cash and cash equivalents include cash on hand and short-term investments. We consider all highly liquid investments with original or remaining maturities upon acquisition of 90 days or less at the date of purchase to be cash equivalents. Cash and cash equivalents-restricted represents cash held for the benefit of customers segregated in compliance with federal and other regulations.

(e) *Disclosures about Fair Value of Financial Instruments*

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

(f) *Investment Securities and Investments in Affiliated Mutual Funds*

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

Our available for sale investments are reviewed each quarter and adjusted for other than temporary declines in value. We consider factors affecting the issuer and the industry the issuer operates in, general market trends including interest rates, and our ability and intent to hold an investment until it has recovered. Consideration is given to the length of time an investment's market value has been below carrying value and prospects for recovery to carrying value. When a decline in the fair value of equity securities is determined to be other than temporary, the unrealized loss recorded net of tax in other comprehensive income is realized as a charge to net income and a new cost basis is established for financial reporting purposes. When a decline in the fair value of debt securities is determined to be other than temporary, the amount of the impairment recognized in earnings depends on whether the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If so, the other than temporary impairment recognized in earnings is equal to the entire difference between the

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WADDELL & REED, INC. AND SUBSIDIARIES
(A Wholly Owned Subsidiary of Waddell & Reed Financial, Inc.)

Notes to Consolidated Balance Sheet

December 31, 2012

investment's amortized cost basis and its fair value at the balance sheet date. If not, the portion of the impairment related to the credit loss is recognized in earnings while the portion of the impairment related to other factors is recognized in other comprehensive income, net of tax.

(g) *Property and Equipment*

Property and equipment are carried at cost. The costs of improvements that extend the life of a fixed asset are capitalized, while the costs of repairs and maintenance are expensed as incurred. Depreciation and amortization are calculated and recorded using the straight-line method over the estimated useful life of the related asset (or lease term if shorter), generally three to 10 years for furniture, and fixtures, one to 10 years for computer software; two to five years for data processing equipment; 10 to 30 years for buildings; three to 26 years for equipment and machinery; and up to 15 years for leasehold improvements, which is the lesser of the lease term or expected life.

(h) *Software Developed for Internal Use*

Certain internal costs incurred in connection with developing or obtaining software for internal use are capitalized in accordance with *Intangibles – Goodwill and Other Topic*, Accounting Standards Codification (ASC) 350. Internal costs capitalized are included in "Property and equipment, net" on the consolidated balance sheet, and were \$9.4 million as of December 31, 2012. Amortization begins when the software project is complete and ready for its intended use and continues over the estimated useful life, generally one to 10 years.

(i) *Goodwill and Identifiable Intangible Assets*

Goodwill represents the excess of the cost of the Company's investment in the net assets of acquired companies over the fair value of the underlying identifiable net assets at the dates of acquisition. Goodwill is not amortized, but is reviewed annually for impairment in the second quarter of each year and when events or circumstances occur that indicate that goodwill might be impaired. Factors that the Company considers important in determining whether an impairment of goodwill or intangible assets might exist include significant continued underperformance compared to peers, the likelihood of termination or nonrenewal of a mutual fund management advisory contract or substantial changes in revenues earned from such contract, significant changes in our business and products, material and ongoing negative industry or economic trends, or other factors specific to each asset being evaluated.

The Company has one reporting unit for goodwill, investment management and related services. This unit's goodwill was recorded as part of the spin-off of WDR from its former parent, and to a lesser extent, was recorded as part of subsequent business combinations that were merged into the existing investment management operations.

To determine fair value of the reporting unit, our review process uses the market and income approaches. In performing the analyses, the Company uses the best information available under the circumstances, including reasonable and supportable assumptions and projections.

The market approach employs market multiples for comparable companies in the financial services industry. Estimates of fair values of the reporting units are established using multiples of earnings

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WADDELL & REED, INC. AND SUBSIDIARIES
(A Wholly Owned Subsidiary of Waddell & Reed Financial, Inc.)

Notes to Consolidated Balance Sheet

December 31, 2012

before interest, taxes, depreciation and amortization (EBITDA). The Company believes that fair values calculated based on multiples of EBITDA are an accurate estimation of fair value.

If the fair value coverage margin calculated under the market approach is not considered significant, the Company utilizes a second approach, the income approach, to estimate fair values and averages the results under both methodologies. The income approach employs a discounted free cash flow approach that takes into account current actual results, projected future results, and the Company's estimated weighted average cost of capital.

The Company compares the fair values of the reporting units to their carrying amounts, including goodwill. If the carrying amount of the reporting unit exceeds its implied fair value, goodwill is considered impaired and a second step is performed to measure the amount of impairment loss, if any.

Indefinite-life intangible assets represent a mutual fund management advisory contract for managed assets obtained in an acquisition. The Company considers this contract to be an indefinite-life intangible asset as it is expected to be renewed without significant cost or modification of terms. The Company also tests this asset for impairment annually by comparing its fair value to the carrying amount of the asset.

(j) *Deferred Sales Commissions*

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

(k) *Revenue Recognition*

We recognize investment management fees as earned over the period in which services are rendered. We charge the Advisors Funds and Ivy Funds VIP daily based upon average daily net assets under management in accordance with investment management agreements between the Advisors Funds and Ivy Funds VIP and the Company. The majority of investment management fees earned from

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WADDELL & REED, INC. AND SUBSIDIARIES
(A Wholly Owned Subsidiary of Waddell & Reed Financial, Inc.)

Notes to Consolidated Balance Sheet

December 31, 2012

institutional and separate accounts are charged quarterly based upon an average of net investment management assets under management in accordance with such agreements.

Underwriting and distribution commission revenues resulting from the sale of investment products are recognized on the trade date. Fee-based asset allocation revenues are charged quarterly based upon average daily net assets under management. We also recognize distribution revenues monthly for certain types of investment products, primarily variable annuity products that are generally calculated based upon average daily net assets under management.

The Company collects Rule 12b-1 service and distribution fees under the distribution and service plan agreements with the Advisors Funds and InvestEd and service agreements with Ivy Funds VIP. Rule 12b-1 service and distribution fees are collected for costs related to the distribution and servicing of mutual fund shares such as sales commissions paid to other broker-dealers, advertising, sales brochures, and costs for providing ongoing services to mutual fund shareholders. The plan allows for payment to the Company of 25 basis points of average daily net assets under management on an annual basis for Class A shares and 100 basis points for Class B and C shares. The Company must engage in activities that are intended to result in the sale of mutual fund shares.

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

Through a revenue sharing allocation agreement with affiliates, the Company receives 25 basis points on gross sales of assets and 10 basis points on average assets under management for Ivy Funds sold through the proprietary channel. In addition, the Company receives revenue for providing accounting, information technology, legal, marketing, rent and other administrative services to affiliated companies.

(I) *Income Taxes*

The Company files consolidated federal income tax returns with WDR. The Company's provision for income taxes has been made on the same basis as if the Company filed separate federal income tax returns using the maximum statutory rate applicable to the consolidated group. The Company is included in the combined state returns filed by WDR and also files separate state income tax returns in other state jurisdictions in which the Company operates that do not allow or require the affiliated group to file on a combined basis.

Income tax expense is based on pre-tax financial accounting income, including adjustments made for the recognition or derecognition related to uncertain tax positions. The recognition or derecognition of income tax expense related to uncertain tax positions is determined under the guidance as prescribed by *Income Taxes Topic*, ASC 740. Deferred tax assets and liabilities are recognized for the future tax attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. A valuation allowance is recognized for deferred tax assets if, based on available evidence, it is more likely than not that all or some portion of the asset will not be realized. Deferred tax assets and deferred tax liabilities are measured using enacted

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tax rates expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in earnings in the period that includes the enactment date.

The Company recognizes tax benefits from equity awards in WDR stock granted to its employees. These tax benefits are reflected as an increase to additional paid-in capital with a corresponding increase to income taxes receivable. The excess tax benefits from share-based payments were \$5.9 million for 2012.

(2) Investment Securities

Investments at December 31, 2012 are as follows (in thousands):

	<u>Amortized cost</u>	<u>Unrealized gains</u>	<u>Unrealized losses</u>	<u>Fair value</u>
Available-for-sale securities:				
Mortgage-backed securities	\$ 9	1	—	10
Corporate bonds	6,645	52	—	6,697
Affiliated mutual funds	21,847	1,521	—	23,368
	<u>28,501</u>	<u>1,574</u>	<u>—</u>	<u>30,075</u>
Total available-for-sale securities	\$ 28,501	1,574	—	30,075
Trading securities:				
Mortgage-backed securities				44
Municipal bonds				500
Corporate bonds				12,112
Common stock				38
Affiliated mutual funds				28,479
				<u>41,173</u>
Total trading securities				41,173
Total investment securities				\$ <u>71,248</u>

Mortgage-backed securities and corporate bonds accounted for as available for sale as of December 31, 2012 mature as follows (in thousands):

	<u>Amortized cost</u>	<u>Fair value</u>
After one year but within ten years	\$ 6,654	6,707

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Mortgage-backed securities, municipal bonds and corporate bonds accounted for as trading and held as of December 31, 2012 mature as follows (in thousands):

	<u>Fair value</u>
Within one year	\$ 2,531
After one year but within ten years	<u>10,125</u>
	<u><u>\$ 12,656</u></u>

Accounting standards establish a framework for measuring fair value and a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of the asset. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset. An individual investment's fair value measurement is assigned a level based upon the observability of the inputs that are significant to the overall valuation. The three-tier hierarchy of inputs is summarized as follows:

- Level 1 – Investments are valued using quoted prices in active markets for identical securities.
- Level 2 – Investments are valued using other significant observable inputs, including quoted prices in active markets for similar securities.
- Level 3 – Investments are valued using significant unobservable inputs, including the Company's own assumptions in determining the fair value of investments.

Assets classified as Level 2 can have a variety of observable inputs. These observable inputs are collected and utilized, primarily by an independent pricing service, in different evaluated pricing approaches depending upon the specific asset to determine a value. The fair value of municipal bonds is measured based on pricing models that take into account, among other factors, information received from market makers and broker/dealers, current trades, bid-wants lists, offerings, market movements, the callability of the bond, state of issuance and benchmark yield curves. The fair value of corporate bonds is measured using various techniques, which consider recently executed transactions in securities of the issuer or comparable issuers, market price quotations (where observable), bond spreads and fundamental data relating to the issuer.

Securities' values classified as Level 3 are primarily determined through the use of a single quote (or multiple quotes) from dealers in the securities using proprietary valuation models. These quotes involve significant unobservable inputs, and thus, the related securities are classified as Level 3 securities.

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The following table summarizes our investment securities as of December 31, 2012 that are recognized in our consolidated balance sheet using fair value measurements based on the differing levels of inputs. There were no transfers between levels for the year ended December 31, 2012.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(In thousands)			
Mortgage-backed securities	\$ —	54	—	54
Municipal bonds	—	500	—	500
Corporate bonds	—	18,809	—	18,809
Common stock	38	—	—	38
Affiliated mutual funds	51,847	—	—	51,847
Total	<u>\$ 51,885</u>	<u>19,363</u>	<u>—</u>	<u>71,248</u>

(3) Goodwill and Identifiable Intangible Asset

Goodwill represents the excess of purchase price over the tangible assets and the identifiable intangible asset of acquired business. Our goodwill is not deductible for tax purposes. Goodwill and the identifiable intangible asset (all considered indefinite lived) at December 31, 2012 are as follows (in thousands):

Goodwill	\$ 16,514
Accumulated amortization	<u>(8,272)</u>
Total goodwill	8,242
Total identifiable intangible asset	<u>26,853</u>
Total	<u>\$ 35,095</u>

In 2012, the Company's annual impairment test indicated that goodwill and the identifiable intangible asset summarized in the table above were not impaired.

(4) Property and Equipment

A summary of property and equipment at December 31, 2012 is as follows (in thousands):

		<u>Estimated useful lives</u>
Furniture and fixtures	\$ 29,698	3 – 10 years
Data processing equipment	19,698	2 – 5 years
Computer software	71,458	1 – 10 years
Equipment	19,492	3 – 26 years
Leasehold improvements	19,520	1 – 15 years

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		<u>Estimated useful lives</u>
Building	\$ 5,284	10 – 30 years
Land	<u>1,940</u>	
Property and equipment, at cost	167,090	
Accumulated depreciation	<u>(99,547)</u>	
Property and equipment, net	<u><u>\$ 67,543</u></u>	

At December 31, 2012, we have property and equipment under capital lease with a cost of \$1.9 million and accumulated depreciation of \$790 thousand.

(5) Income Taxes

The provision for income taxes for the year ended December 31, 2012 consists of the following (in thousands):

Currently payable:	
Federal	\$ 63,525
State	<u>5,032</u>
	68,557
Deferred taxes	<u>(3,595)</u>
Provision for income taxes	<u><u>\$ 64,962</u></u>

The following table reconciles the statutory federal income tax rate to the Company's effective income tax rate:

Statutory federal income tax rate	35.0%
State income taxes, net of federal tax benefits	1.8
Valuation allowance	(1.7)
Other items	<u>(0.3)</u>
Effective income tax rate	<u><u>34.8%</u></u>

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The tax effect of temporary differences that give rise to significant portions of deferred tax liabilities and deferred tax assets at December 31, 2012 is presented as follows (in thousands):

Deferred tax liabilities:		
Unrealized gains on investment securities	\$	(588)
Deferred sales commissions		(146)
Property and equipment		(9,094)
Benefit plans		(9,791)
Purchase of fund assets		(6,280)
Prepaid expenses		<u>(1,770)</u>
Total gross deferred liabilities		<u>(27,669)</u>
Deferred tax assets:		
Capital loss carryforward		169
Additional pension and postretirement liability		25,154
Accrued expenses		11,774
Nonvested stock		17,749
State net operating loss carryforwards		4,070
Federal benefit on state liabilities		2,288
Unused state tax credits		970
Other		<u>801</u>
Total gross deferred assets		62,975
Valuation allowance		<u>(3,972)</u>
Net deferred tax asset	\$	<u><u>31,334</u></u>

During 2009, the Company sold a subsidiary, which generated a capital loss available to offset potential future capital gains. Due to the character of the loss and the limited carryforward period permitted by law, the Company may not realize the full tax benefit of the capital loss. The capital loss carryforward, if not utilized, will expire in 2014. The deferred tax asset, net of federal tax effect, relating to the capital losses as of December 31, 2012, is approximately \$0.2 million. As of December 31, 2012, other net deferred tax liabilities, which are capital in nature, are approximately \$0.5 million. Management believes it is not more likely than not that the Company will generate sufficient future capital gains to realize the full benefit of these capital losses in certain state jurisdictions in which the Company files. Accordingly, a valuation allowance in the amount of \$0.1 million has been recorded at December 31, 2012. During 2012, realized gains on the sale of investment securities and increases in the fair value of the Company's available for sale securities portfolio allowed for a reduction in the valuation allowance of \$3.2 million.

As of December 31, 2012, the Company has net operating loss carryforwards in certain states in which the Company files on a separate company basis and has recognized a deferred tax asset for such loss carryforwards. The deferred tax asset, net of federal tax effect, related to the carryforwards is approximately \$4.1 million at December 31, 2012. The carryforwards, if not utilized, will expire between 2013 and 2032. Management believes it is not more likely than not that the Company will generate

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sufficient future taxable income in certain states to realize the benefit of the net operating loss carryforwards, and accordingly, a valuation allowance in the amount of \$3.9 million has been recorded at December 31, 2012. The Company has state tax credits of \$1.0 million as of December 31, 2012 that can be utilized in future tax years. Of these state tax credit carryforwards, \$0.7 million will expire between 2024 and 2028 if not utilized and \$0.3 million will expire in 2026 if not utilized. The Company anticipates these credits will be fully utilized prior to their expiration dates.

As of January 1, 2012, the Company had unrecognized tax benefits, including penalties and interest, of \$7.3 million (\$5.3 million net of federal benefit) that, if recognized, would impact the Company's effective tax rate. As of December 31, 2012, the Company had unrecognized tax benefits, including penalties and interest, of \$7.6 million (\$5.3 million net of federal benefit) that, if recognized, would impact the Company's effective tax rate. The unrecognized tax benefits that are not expected to be settled within the next 12 months are included in other liabilities in the accompanying consolidated balance sheet; unrecognized tax benefits that are expected to be settled within the next 12 months are included in income taxes receivable.

The Company's historical accounting policy with respect to interest and penalties related to tax uncertainties has been to classify these amounts as income taxes. As of January 1, 2012, the total amount of accrued interest and penalties related to uncertain tax positions included in the consolidated balance sheet was \$2.1 million (\$1.7 million net of federal benefit). The total amount of accrued penalties and interest related to uncertain tax positions at December 31, 2012 of \$2.3 million (\$1.8 million net of federal benefit) is included in the total unrecognized tax benefits described above.

The following table summarizes the Company's reconciliation of unrecognized tax benefits (excluding penalties and interest) for the year ended December 31, 2012 (in thousands):

	Unrecognized tax benefits
Balance at January 1, 2012	\$ 5,219
Increases during the year:	
Gross increases – tax positions in prior period	988
Gross increases – current period tax positions	172
Decreases during the year:	
Gross decreases – tax positions in prior period	(165)
Decreases due to lapse of statute of limitations	(874)
Balance at December 31, 2012	\$ <u>5,340</u>

In the ordinary course of business, many transactions occur for which the ultimate tax outcome is uncertain. In addition, respective tax authorities periodically audit our income tax returns. These audits examine our significant tax filing positions, including the timing and amounts of deductions and the

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allocation of income among tax jurisdictions. During 2012, the Company settled three open tax years that were undergoing audits by state jurisdictions in which the Company operates. This allowed the Company to recognize tax benefits previously considered uncertain. The 2009 through 2011 federal income tax returns are the only open tax years that remain subject to potential future audit. The 2006 and 2007 federal tax years also remain open to a limited extent due to capital loss carryback claims. State income tax returns for all years after 2008 and, in certain states, income tax returns prior to 2009, are subject to potential future audit by tax authorities in the Company's major state tax jurisdictions.

The Company is currently being audited in various state jurisdictions. It is reasonably possible that the Company will settle the audits in these jurisdictions within the next 12-month period. It is estimated that the Company's liability for unrecognized tax benefits could decrease by approximately \$0.3 million to \$1.8 million (\$0.2 million to \$1.2 million net of federal benefit) upon settlement of these audits. Such settlements are not anticipated to have a significant impact on reported income.

(6) Pension Plan and Postretirement Benefits Other Than Pension

The Company participates in the WDR sponsored noncontributory retirement plan (the Plan) that covers substantially all employees. Benefits payable under the Plan are based on an employee's years of service and compensation during the final 10 years of employment. WDR allocates pension expense to the Company for the Plan.

The total projected benefit obligation of the Plan is \$184.2 million, of which \$158.4 million relates to the Company. The total pension benefits liability (representing the projected benefit obligation in excess of the pension plan assets) recorded on the consolidated balance sheet of WDR at December 31, 2012 is \$50.3 million, of which \$43.2 million is included in accrued pension and postretirement costs on the Company's consolidated balance sheet.

The Company also participates in the WDR sponsored unfunded defined benefit postretirement medical plan (medical plan) that covers substantially all employees including Waddell & Reed advisors. The medical plan is contributory with retiree contributions adjusted annually. All contributions to the medical plan are voluntary as it is not funded and is not subject to any minimum regulatory funding requirements. The contributions for each year represent claims paid for medical expenses. Net accrued medical plan costs in the amount of \$8.8 million are recorded on the consolidated balance sheet of WDR at December 31, 2012, of which \$8.2 million relates to the Company. Of the Company's total liability at December 31, 2012, \$0.3 million is included in other current liabilities, while the remainder is long term in nature and is included in accrued pension and postretirement costs.

(7) Employee Savings Plan

The Company participates in the WDR sponsored defined contribution plan that qualifies under Section 401(k) of the Internal Revenue Code to provide retirement benefits for employees following the completion of an eligibility period. As allowed under Section 401(k), the plan provides tax-deferred salary deductions for eligible employees. The Company's matching contributions to the plan for the year ended December 31, 2012 were \$3.9 million.

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(8) Net Capital Requirements

The Company is subject to the SEC Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15.0 to 1.0. A broker/dealer may elect to not be subject to the Aggregate Indebtedness Standard of paragraph (a)(1)(i) of Rule 15c3-1, in which case net capital must exceed the greater of \$250 thousand or 2% of aggregate debit items computed in accordance with the Formula for Determination of Reserve Requirements for broker/dealers. Our Company made this election and is not subject to the aggregate indebtedness ratio as of December 31, 2012. At December 31, 2012, the Company had net capital of \$24.7 million that was \$24.4 million in excess of its required net capital of \$250 thousand. The primary difference between net capital and stockholder's equity are the nonallowable assets that are excluded from net capital.

(9) Rule 15c3-3 Exemption

The Company does not hold customer funds or safekeep customer securities and is therefore exempt from Rule 15c3-3 of the SEC under subsection (k)(2)(i) and (k)(2)(ii). The Company did not have any customers' fully paid securities and excess margin securities that were not in the Company's possession or control as of December 31, 2012 for which instructions to reduce to possession or control had been issued as of December 31, 2012, but for which the required action was not taken by the Company within the time frames specified under Rule 15c3-3 of the Securities Exchange Act of 1934. The Company also did not have any customers' fully paid securities and excess margin securities for which instructions to reduce to possession or control had not been issued as of December 31, 2012, excluding items arising from "temporary lags that result from normal business operations" as permitted under Rule 15c3-3 of the Securities Exchange Act of 1934. Under this exemption, the "Computation for Determination of Reserve Requirements" and "Information Relating to the Possession or Control Requirements" are not required.

(10) Share-Based Compensation

WDR allocates expenses for nonvested shares of WDR stock to the Company that, in turn, are granted to certain key personnel of the Company under its stock incentive plans. Nonvested stock awards are valued on the date of grant, have no purchase price and vest over four years in 33⅓% increments on the second, third, and fourth anniversaries of the grant date. Under WDR's stock plans, shares of nonvested stock may be forfeited upon the termination of employment with the Company, dependent upon the circumstances of termination. Except for restrictions placed on the transferability of nonvested stock, holders of nonvested stock have full stockholders' rights during the term of restriction, including voting rights and the rights to receive cash dividends. The Company pays WDR for expense related to these awards.

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(11) Lease Commitments

The Company leases home office buildings, certain sales, and other office space and equipment under long-term operating leases. Future minimum rental commitments under noncancelable operating leases are as follows (in thousands):

2013	\$	19,596
2014		15,846
2015		12,346
2016		9,262
2017		6,923
Thereafter		21,577
	\$	<u>85,550</u>

New leases are expected to be executed as existing leases expire. Thus, future minimum lease commitments are not expected to be materially different than those in 2012.

(12) Related Parties

The current amounts due from affiliates at December 31, 2012 includes noninterest-bearing advances for current operating expenses and commissions due from the sales of affiliates' products. The current amounts due to affiliates at December 31, 2012 include amounts due for administrative and other services.

The amount classified as income tax receivable at December 31, 2012 consists entirely of amounts due from WDR for tax allocations.

(13) Contingencies

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

The Company accrues an undiscounted liability for those contingencies where the incurrence of a loss is probable, and the amount can be reasonably estimated. These amounts are not reduced by amounts that may be recovered under insurance or claims against third parties, but undiscounted receivables from insurers or other third parties may be accrued separately. The Company regularly revises such accruals in light of new information. For contingencies where an unfavorable outcome is reasonably possible and that are significant, the Company discloses the nature of the contingency and, where feasible, an estimate of the possible loss. For purposes of our litigation contingency disclosures, "significant" includes material matters as well as other items that management believes should be disclosed. Management judgment is required related to contingent liabilities and the outcome of litigation because both are difficult to predict.

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Michael E. Taylor, Kenneth B. Young, individuals, on behalf of themselves individually and on behalf of others similarly situated v. Waddell & Reed, Inc., a Delaware Corporation; and DOES 1 through 10 inclusive; Case No. 09-CV-2909 DMS WVG; in the United States District Court for the Southern District of California.

In this action filed December 28, 2009, the Company was sued in an individual action, class action and Fair Labor Standards Act (FLSA) nationwide collective action by two former advisors asserting misclassification of financial advisors as independent contractors instead of employees. Plaintiffs, on behalf of themselves and a purported class of Waddell & Reed, Inc. financial advisors, assert claims under the FLSA for minimum wages and overtime wages, and under California Labor Code Statutes for timely payment of wages, minimum wages, overtime compensation, meal periods, reimbursement of losses and business expenses and itemized wage statements and a claim for Unfair Business Practices under §17200 of the California Business & Professions Code. Plaintiffs seek declaratory and injunctive relief and monetary damages.

Plaintiffs moved for conditional collective action certification under the FLSA. The Company opposed this motion and additionally moved for summary judgment on Plaintiffs' individual FLSA claims. The Court issued an order on January 3, 2012 granting the Company's summary judgment motions, holding that Plaintiffs' individual FLSA claims fail as a matter of law, and denying Plaintiffs' motion for conditional collective action certification under the FLSA as moot. This ruling effectively removes all nationwide FLSA claims from the case.

Subsequently, the Company moved for summary judgment on Plaintiffs' individual California claims. The Court issued an order on August 20, 2012 granting the Company's summary judgment motions, holding that Plaintiffs' individual California claims fail as a matter of law. This order effectively dismissed Plaintiffs from the case, both individually and as putative class representatives.

However, in its August 20, 2012 order, the Court also granted Plaintiffs' motion to add a new individual and putative class representative to the action, effectively replacing the originally named Plaintiffs. The newly named Plaintiff continued to pursue the California claims referenced above on behalf of the putative class, as well as newly added representative derivative claims under the California Private Attorney General Act.

The Company moved for summary judgment, asking the Court to dismiss the newly named Plaintiff's individual claims. The arguments made in support of this request were the same as those that prevailed in the Taylor and Young motions for summary judgment. On February 1, 2013, the Court issued an order granting the Company's summary judgment motion. This ruling effectively dismisses all remaining claims in the case in their entirety, pending appeal. No appeal has yet been filed. The Company intends to continue to vigorously defend the matter at appeal, if any.

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