

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 70151 / August 9, 2013

ADMINISTRATIVE PROCEEDING
File No. 3-12372

In the Matter of

**WADDELL & REED, INC.,
WADDELL & REED INVESTMENT
MANAGEMENT COMPANY, AND
WADDELL & REED SERVICES
COMPANY,**

Respondents.

**ORDER APPROVING
PLAN OF DISTRIBUTION,
APPOINTING A FUND
ADMINISTRATOR,
AND WAIVING BOND
REQUIREMENT**

On July 24, 2006, the Securities and Exchange Commission (“Commission”) issued an Order Instituting Administrative And Cease-and-Desist Proceedings Pursuant to Sections 15(b) and 17A(c) of the Securities Exchange Act of 1934, Sections 203(e) and 203(k) of the Investment Advisers Act of 1940 and Sections 9(b) and 9(f) of the Investment Company Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”) against Waddell & Reed, Inc., Waddell & Reed Investment Management Company, and Waddell & Reed Services Company (collectively the “Respondents”) (Exchange Act Rel. No. 54193 (July 24, 2006)). Pursuant to the Order, the Commission authorized the establishment of a Fair Fund, comprised of \$50,000,000 in disgorgement and a civil penalty paid by Respondents, for distribution to investors affected by three accountholders who engaged in short-term trading of the Waddell & Reed mutual fund complex (“W&R Funds”) harming those funds by diluting the returns of other investors. The Order provided that the Fair Fund was to be distributed pursuant to a distribution plan developed by an Independent Distribution Consultant. The Respondents retained James C. Meehan of Cornerstone Research, Inc. as the Independent Distribution Consultant (“IDC”), who has developed a proposed distribution plan (the “Distribution Plan”) in consultation with the Division of Enforcement and Respondents.

On April 23, 2013, the Commission issued a “Notice of Proposed Plan of Distribution and Opportunity for Comment” (“Notice”) in connection with this proceeding pursuant to Rule 1103 of the Commission’s Rules on Fair Fund and Disgorgement Plans, 17 C.F.R. § 201.1103

(Exchange Act Rel. No. 69437 (Apr. 23, 2013)). This Notice advised interested parties that they could obtain a copy of the proposed plan of distribution (“Distribution Plan”) of monies placed into the Fair Fund by printing a copy from the Commission’s public website or by submitting a written request to Nancy Burton, United States Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-5631.

The Notice also advised that all persons desiring to comment on the Distribution Plan could submit their views, in writing, no later than thirty days from the date of the Notice, to the Office of the Secretary, United States Securities and Exchange Commission, 100 F Street, N.E., Washington, DC 20549-1090; by using the Commission’s Internet comment form; or by sending an e-mail to rule-comments@sec.gov. The Commission received no comments on the Distribution Plan.

The Distribution Plan provides for investors to receive monies from the Fair Fund that represent their proportionate share of losses suffered by the fund due to market timing by the Timers and a proportionate share of advisory fees paid by funds that suffered losses during the period of market timing from December 1, 1998 through October 31, 2003. The plan is designed to allocate the Fair Fund among the W&R Funds accountholders who held shares in the Accumulative, Continental Income, Core Investment, International Growth, New Concepts, Science & Technology, Small Cap, Value, and Vanguard funds. The methods of calculation of each eligible investor’s share of the Fair Fund are intended to result in payment to each eligible investor that restores the impaired value of the investor’s investment in the harmed funds plus a partial refund of advisory fees. Each accountholder with positive net dilution within a fund above a minimum threshold will receive a prorated share of the settlement that is a multiple of their aggregate net dilution within that fund (“Eligible Investor”). The Eligible Investors will not be required to make a claim or submit documentation to establish their eligibility.

The Distribution Plan also proposes Rust Consulting, Inc. as the Fund Administrator and sets forth, among other things, procedures for the administration of the Fair Fund, including a proposed timeframe for the termination of the Distribution Plan.

The Distribution Plan proposes that Rust Consulting, Inc. not be required to post a bond generally required of third parties under Fair Fund Rule 1105(c). The Distribution Plan states that good cause for waiver exists for the reasons that follow: (1) the Fund Administrator will have no custody, and only limited control, of the Fair Fund; (2) the Fair Fund will be held by the U.S. Treasury Bureau of Public Debt until the funds are transferred to the Escrow Bank immediately before transmittal of checks or electronic transfers to eligible investors; (3) upon transfer from the U.S. Treasury, funds will be held in an escrow account, separate from the Escrow Bank’s assets until presentation of a check or electronic transfer, at which time funds will be transferred to a controlled distribution account; (4) presented checks or electronic transfers will be subject to “positive pay” controls before being honored by the Escrow Bank; and (5) both the Escrow Bank and the Fund Administrator will maintain, throughout this process, insurance and/or a financial institution bond that covers errors and omissions, misfeasance and fraud.

The Division of Enforcement requests that the Commission:

- (1) Approve the Distribution Plan as proposed;
- (2) Appoint Rust Consulting, Inc. as the Fund Administrator; and

(3) Waive the bond requirement for good cause shown.

Accordingly, IT IS HEREBY ORDERED, pursuant to Rule 1104 of the Commission's Rules on Fair Fund and Disgorgement Plans, 17 C.F.R. § 201.1104, that the Distribution Plan is approved.

IT IS FURTHER ORDERED, pursuant to Rule 1105 of the Commission's Rules on Fair Fund and Disgorgement Plans, 17 C.F.R. § 201.1105, that Rust Consulting, Inc. is appointed as the Fund Administrator in accordance with the terms of the Distribution Plan and that the bond requirement is waived for good cause shown.

For the Commission, by its Secretary, pursuant to delegated authority.

Elizabeth M. Murphy
Secretary