

STATE OF OKLAHOMA  
DEPARTMENT OF SECURITIES  
FIRST NATIONAL CENTER, SUITE 860  
120 NORTH ROBINSON  
OKLAHOMA CITY, OKLAHOMA 73102



In the Matter of:

Waddell & Reed, Inc. (CRD# 866),  
Lonnie G. Brown (CRD# 1341537), and  
John K. Maloney (CRD# 1248200),

Respondents.

ODS File No. 06-126

**AGREEMENT**

**THIS AGREEMENT** is entered into between Waddell & Reed, Inc. ("Waddell & Reed"), Lonnie G. Brown ("Brown"), and John K. Maloney ("Maloney") (collectively, "Respondents") and the Administrator ("Administrator") of the Oklahoma Department of Securities ("Department") (collectively, the "Parties") as of the Effective Date set forth below.

Pursuant to Section 1-602 of the Oklahoma Uniform Securities Act of 2004 ("Act"), Okla. Stat. tit. 71, §§ 1-101 through 1-701 (Supp. 2004), and Section 405 of the Oklahoma Securities Act ("Predecessor Act"), Okla. Stat. tit. 71, §§ 1-413, 501, 701 through 703 (2001 & Supp. 2003), *repealed by the Act*, the Enforcement Division of the Department ("Enforcement Division") conducted an investigation into the activities of Respondents, in connection with the offer and/or sale of securities in and/or from the state of Oklahoma. Based thereon, the Enforcement Division filed an *Enforcement Division Recommendation* with the Administrator on June 16, 2008, recommending the imposition of sanctions against Respondents ("Recommendation"). The Recommendation is attached hereto as "Attachment A" and is incorporated herein by reference.

Respondents desire to settle this matter in a manner consistent with the purposes fairly intended by the policies and provisions of the Act without admitting any of the findings or conclusions contained in the Notice of Opportunity for Hearing, the Recommendation and accompanying documents, except as to the Administrator's jurisdiction over the Respondents and the subject matter of this action. Respondents voluntarily waive their right to a hearing as provided by the Act, the Rules of the Oklahoma Securities Commission and the Administrator of the Department of Securities, and the Oklahoma Administrative Procedures Act, Okla. Stat. tit. 75, §§ 250.1 through 323 (2001 & Supp. 2007).

**NOW THEREFORE**, the undersigned Parties hereto agree as follows:

1. **Order.** The Administrator will issue an order in the form attached hereto as "Attachment B" ("Order").

2. **Respondent Brown.** Brown agrees to the following:

A. Brown's registrations as an agent and an investment adviser representative will be suspended for three (3) business days, beginning at 12:00 a.m. on Wednesday, July 16, 2008, and ending at 11:59 p.m. on Friday, July 18, 2008.

B. Brown will pay a civil penalty, in the amount of \$2,500, to the Department within thirty (30) days of the Effective Date of this Agreement. The civil penalty shall be paid by money order or cashier's check payable to "Oklahoma Department of Securities" and shall be mailed, on or before the date it is due, to the following address:

Oklahoma Department of Securities  
Attn: Terra Bonnell  
Suite 860, First National Center  
120 North Robinson Avenue  
Oklahoma City, OK 73102.

C. Brown will complete the following tasks within thirty (30) days of the Effective Date of this Agreement:

- i. read IRS publication titled "Retirement Plans FAQs regarding Revenue Ruling 2002-62";
- ii. read FINRA article titled "Early Retirement Seminars 101: Smart Tips for Spotting Retirement Scams";
- iii. complete FINRA e-learning course titled "Senior Investor Suitability Considerations" (ELC134);
- iv. complete FINRA webcast titled "Considerations for Working with Seniors";
- v. complete FINRA webcast titled "Communications with the Public";
- vi. complete FINRA webcast titled "The Importance of Ethical Behavior"; and
- vii. listen to FINRA podcast titled "Protecting Senior Investors."

Within forty (40) days of the Effective Date of this Agreement, Brown shall provide to the Department a sworn affidavit in which he and his designated supervisor attest to Brown's completion of the tasks enumerated in items (i) through (vii) above.

3. **Respondent Maloney.** Maloney agrees to the following:

A. Maloney will pay a civil penalty, in the amount of \$5,000, to the Department within thirty (30) days of the Effective Date of this Agreement. The civil penalty shall be paid by money order or cashier's check payable to "Oklahoma Department of Securities" and shall be mailed, on or before the date it is due, to the address provided in item 2.B. above.

B. Maloney will complete the following tasks within thirty (30) days of the Effective Date of this Agreement:

- i. listen to FINRA podcast titled "Seniors Supervisory Considerations"; and
- ii. complete FINRA e-learning course titled "Supervisory Considerations for Working with Seniors" (VLC002).

Within forty (40) days of the Effective Date of this Agreement, Maloney shall provide to the Department a sworn affidavit in which he attests to the completion of the tasks enumerated in items (i) through (ii) above.

C. Maloney will complete the CRPC (Chartered Retirement Planning Counselor) Professional Designation Program ("Program") sponsored by the College for Financial Planning and obtain a passing score on the Program's final exam within one (1) year of the Effective Date of this Agreement. Within ten (10) days of learning that he passed the final exam, Maloney shall inform the Department in writing that he passed the final exam. In the event Maloney fails to pass the Program's final exam within one (1) year of the Effective Date of this Agreement, Maloney shall requalify as a principal by retaking the Series 24 within a reasonable time after one (1) year after the Effective Date of this Agreement.

4. **Respondent Waddell & Reed.** Waddell & Reed agrees to the following:

A. Waddell & Reed shall be censured by the Administrator.

B. Waddell & Reed will pay a civil penalty, in the amount of \$10,000, to the Department within thirty (30) days of the Effective Date of this Agreement. The civil penalty shall be paid by corporate check, money order or cashier's check payable to "Oklahoma Department of Securities" and shall be mailed, on or before the date it is due, to the address provided in item 2.B. above.

C. Waddell & Reed will implement written supervisory procedures and compliance guidelines relating to the calculation of "substantially equal periodic payments" pursuant to Section 72(t) of the Internal Revenue Code ("IRC") within sixty (60) business days of the Effective Date of this Agreement. Waddell & Reed will provide the Department with a copy of such policies and procedures at least ten (10) business days before they are implemented. Waddell & Reed will maintain written supervisory procedures and compliance guidelines relating to the calculation of substantially equal periodic payments pursuant to Section 72(t) of the IRC as long as such topic remains applicable to the securities industry.

D. Waddell & Reed will conduct additional training regarding Section 72(t) of the IRC including, but not limited to, the calculation of the amount of "substantially equal periodic payments," as part of the firm's continuing

education for its agents and principals as long as such topic remains applicable to the securities industry.

5. **Jurisdiction.** The Administrator has jurisdiction over Respondents and the subject matter of this action.

6. **No Coercion.** Respondents enter into this Agreement voluntarily and without any duress, undue influence, or coercion by the Administrator, any employee of the Department, or any member of the Oklahoma Securities Commission.

7. **Entire Agreement; Amendment.** This writing constitutes the entire agreement of the Parties with respect to the subject matter hereof and supersedes any and all prior and contemporaneous agreements, representations, and understandings of the Parties. No supplement, modification, or amendment to this Agreement shall be binding unless executed in writing by each of the Parties hereto.

8. **Limitation on Agreement.** Nothing in this Agreement shall prohibit the Administrator from furnishing information to any other properly constituted agency or authority. In the event any other agency or authority commences an action in connection with information obtained by the Administrator against Respondents, the Administrator may assist in such actions as authorized by law.

9. **Effective Date.** This Agreement shall be effective as of the date on which it is signed by the Administrator as set forth below his signature hereto.

10. **Consideration.** In consideration for this Agreement, and except as provided in item 11 below, the Administrator will not take further action against Respondents for any conduct alleged in the Recommendation.

11. **Failure to Comply.** If Respondents fail to comply with the terms of this Agreement in any material respect, the Administrator may proceed against Respondents as authorized by law.

12. **Applicability.** This Agreement applies only to the activities of Respondents as set forth in the Recommendation and to no others.

**IN WITNESS WHEREOF**, the parties have executed this Agreement as of the date and year set forth below their signatures hereto.

**WADDELL & REED, INC.**

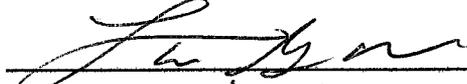
By: 

Title: Senior Vice President and Associate General Counsel

Date: 7/15/08

Address: 6300 Lamar Ave  
Overland Park, KS 66202

**LONNIE G. BROWN**



Date: 07/09/08

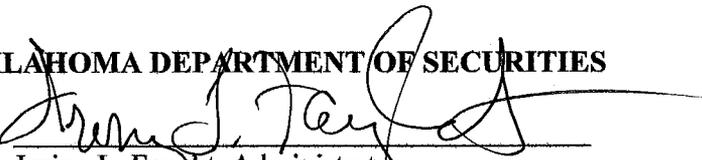
Address: 3778 W. ST. 2780  
Ninnekah, OK 73067

**JOHN K. MALONEY**

\_\_\_\_\_  
Date: \_\_\_\_\_

Address: \_\_\_\_\_  
\_\_\_\_\_

**OKLAHOMA DEPARTMENT OF SECURITIES**

By:   
Irving L. Faught, Administrator

Date: July 18, 2008

**LONNIE G. BROWN**

\_\_\_\_\_  
Date: \_\_\_\_\_

Address: \_\_\_\_\_  
\_\_\_\_\_

**JOHN K. MALONEY**

John K. Maloney  
Date: 07-09-2008

Address: 508 W 15  
EDMOND, OK 73013

**OKLAHOMA DEPARTMENT OF SECURITIES**

By: \_\_\_\_\_  
Irving L. Faught, Administrator

Date: \_\_\_\_\_

Approved as to form:

\_\_\_\_\_  
Amy E. Rush  
Senior Regulatory Counsel  
Waddell & Reed, Inc.  
6300 Lamar Avenue  
Shawnee Mission, KS 66202  
ATTORNEY FOR RESPONDENTS

\_\_\_\_\_  
Terra Shamas Bonnell  
Enforcement Attorney  
Oklahoma Department of Securities  
120 North Robinson Avenue, Suite 860  
Oklahoma City, OK 73102  
ATTORNEY FOR DEPARTMENT

Approved as to form:



Amy E. Rush

Senior Regulatory Counsel  
Waddell & Reed, Inc.  
6300 Lamar Avenue  
Shawnee Mission, KS 66202  
ATTORNEY FOR RESPONDENTS



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STATE OF OKLAHOMA  
DEPARTMENT OF SECURITIES  
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In the Matter of:

Waddell & Reed, Inc. (CRD# 866),  
Lonnie G. Brown (CRD# 1341537), and  
John K. Maloney (CRD# 1248200).

Respondents.

ODS File No. 06-126

**ORDER**

Pursuant to Section 1-602 of the Oklahoma Uniform Securities Act of 2004 ("Act"), Okla. Stat. tit. 71, §§ 1-101 through 1-701 (Supp. 2004), and Section 405 of the Oklahoma Securities Act ("Predecessor Act"), Okla. Stat. tit. 71, §§ 1-413, 501, 701 through 703 (2001 & Supp. 2003), *repealed by the Act*, the Enforcement Division of the Oklahoma Department of Securities ("Department") conducted an investigation into the activities of Waddell & Reed, Inc. ("Waddell & Reed"), Lonnie G. Brown ("Brown"), and John K. Maloney ("Maloney") (collectively, "Respondents"), in connection with the offer and/or sale of securities in and/or from the state of Oklahoma. Based thereon, the Enforcement Division filed an *Enforcement Division Recommendation* with the Administrator of the Department ("Administrator") on June 16, 2008, recommending the imposition of sanctions against Respondents ("Recommendation"). In order to resolve this matter and without admitting any of the findings or conclusions contained in the Notice of Opportunity for Hearing, the Recommendation and accompanying documents, except as to the Administrator's jurisdiction over the Respondents and the subject matter of this action, Respondents voluntarily executed the *Agreement*, attached hereto as "Exhibit A" and incorporated herein by reference ("Agreement").

This Order is issued pursuant to Section 1-411 of the Act. The Administrator hereby adopts the Findings of Fact and Conclusions of Law set forth in the Recommendation. The Respondents agree to the entry of the Order without admitting any of the Findings of Fact and Conclusions of Law set forth in the Recommendation, except as to the Administrator's jurisdiction over the Respondents and the subject matter of this action.

NOW THEREFORE, IT IS HEREBY ORDERED that the agent and investment adviser representative registrations of Respondent Brown are suspended for three (3) business days, beginning at 12:00 a.m. on Wednesday, July 16, 2008, and ending at 11:59 p.m. on Friday, July 18, 2008, and shall pay a civil penalty, in the amount of \$2,500, to the Department per the terms of the Agreement.

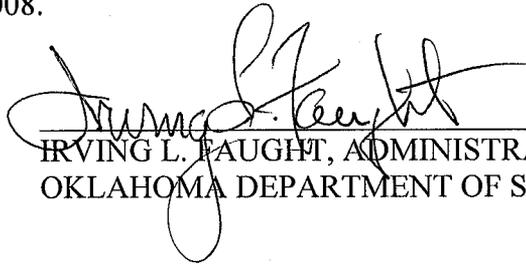
IT IS FURTHER ORDERED that Respondent Maloney shall pay a civil penalty, in the amount of \$5,000, to the Department per the terms of the Agreement.

IT IS FURTHER ORDERED that Respondent Waddell & Reed is hereby censured and shall pay a civil penalty, in the amount of \$10,000, to the Department per the terms of the Agreement.

IT IS FURTHER ORDERED that Respondents comply with all provisions of the Agreement.

Witness my Hand and the Official Seal of the Oklahoma Department of Securities this 18<sup>th</sup> day of July, 2008.

(SEAL)



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IRVING L. FAUGHT, ADMINISTRATOR OF THE  
OKLAHOMA DEPARTMENT OF SECURITIES

CERTIFICATE OF SERVICE

The undersigned hereby certifies that on the 18<sup>th</sup> day of July, 2008, a true and correct copy of the above and foregoing *Order* was mailed, with postage prepaid thereon, addressed to:

Lonnie G. Brown  
508 W. 15th St  
Edmond, OK 73013

John K. Maloney  
508 W. 15th St  
Edmond, OK 73013

Amy E. Rush  
Senior Regulatory Counsel  
Waddell & Reed, Inc.  
6300 Lamar Ave  
Overland Park, KS 66202-4200



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STATE OF OKLAHOMA  
DEPARTMENT OF SECURITIES  
FIRST NATIONAL CENTER, SUITE 860  
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In the Matter of:

Waddell & Reed, Inc. (CRD# 866),  
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Respondents.

ODS File No. 06-126

**AGREEMENT**

**THIS AGREEMENT** is entered into between Waddell & Reed, Inc. ("Waddell & Reed"), Lonnie G. Brown ("Brown"), and John K. Maloney ("Maloney") (collectively, "Respondents") and the Administrator ("Administrator") of the Oklahoma Department of Securities ("Department") (collectively, the "Parties") as of the Effective Date set forth below.

Pursuant to Section 1-602 of the Oklahoma Uniform Securities Act of 2004 ("Act"), Okla. Stat. tit. 71, §§ 1-101 through 1-701 (Supp. 2004), and Section 405 of the Oklahoma Securities Act ("Predecessor Act"), Okla. Stat. tit. 71, §§ 1-413, 501, 701 through 703 (2001 & Supp. 2003), *repealed by* the Act, the Enforcement Division of the Department ("Enforcement Division") conducted an investigation into the activities of Respondents, in connection with the offer and/or sale of securities in and/or from the state of Oklahoma. Based thereon, the Enforcement Division filed an *Enforcement Division Recommendation* with the Administrator on June 16, 2008, recommending the imposition of sanctions against Respondents ("Recommendation"). The Recommendation is attached hereto as "Attachment A" and is incorporated herein by reference.

Respondents desire to settle this matter in a manner consistent with the purposes fairly intended by the policies and provisions of the Act without admitting any of the findings or conclusions contained in the Notice of Opportunity for Hearing, the Recommendation and accompanying documents, except as to the Administrator's jurisdiction over the Respondents and the subject matter of this action. Respondents voluntarily waive their right to a hearing as provided by the Act, the Rules of the Oklahoma Securities Commission and the Administrator of the Department of Securities, and the Oklahoma Administrative Procedures Act, Okla. Stat. tit. 75, §§ 250.1 through 323 (2001 & Supp. 2007).

**NOW THEREFORE**, the undersigned Parties hereto agree as follows:

1. **Order.** The Administrator will issue an order in the form attached hereto as "Attachment B" ("Order").

2. **Respondent Brown.** Brown agrees to the following:

A. Brown's registrations as an agent and an investment adviser representative will be suspended for three (3) business days, beginning at 12:00 a.m. on Wednesday, July 16, 2008, and ending at 11:59 p.m. on Friday, July 18, 2008.

B. Brown will pay a civil penalty, in the amount of \$2,500, to the Department within thirty (30) days of the Effective Date of this Agreement. The civil penalty shall be paid by money order or cashier's check payable to "Oklahoma Department of Securities" and shall be mailed, on or before the date it is due, to the following address:

Oklahoma Department of Securities  
Attn: Terra Bonnell  
Suite 860, First National Center  
120 North Robinson Avenue  
Oklahoma City, OK 73102.

C. Brown will complete the following tasks within thirty (30) days of the Effective Date of this Agreement:

- i. read IRS publication titled "Retirement Plans FAQs regarding Revenue Ruling 2002-62";
- ii. read FINRA article titled "Early Retirement Seminars 101: Smart Tips for Spotting Retirement Scams";
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- iv. complete FINRA webcast titled "Considerations for Working with Seniors";
- v. complete FINRA webcast titled "Communications with the Public";
- vi. complete FINRA webcast titled "The Importance of Ethical Behavior"; and
- vii. listen to FINRA podcast titled "Protecting Senior Investors."

Within forty (40) days of the Effective Date of this Agreement, Brown shall provide to the Department a sworn affidavit in which he and his designated supervisor attest to Brown's completion of the tasks enumerated in items (i) through (vii) above.

3. **Respondent Maloney.** Maloney agrees to the following:

A. Maloney will pay a civil penalty, in the amount of \$5,000, to the Department within thirty (30) days of the Effective Date of this Agreement. The civil penalty shall be paid by money order or cashier's check payable to "Oklahoma Department of Securities" and shall be mailed, on or before the date it is due, to the address provided in item 2.B. above.

B. Maloney will complete the following tasks within thirty (30) days of the Effective Date of this Agreement:

- i. listen to FINRA podcast titled "Seniors Supervisory Considerations"; and
- ii. complete FINRA e-learning course titled "Supervisory Considerations for Working with Seniors" (VLC002).

Within forty (40) days of the Effective Date of this Agreement, Maloney shall provide to the Department a sworn affidavit in which he attests to the completion of the tasks enumerated in items (i) through (ii) above.

C. Maloney will complete the CRPC (Chartered Retirement Planning Counselor) Professional Designation Program ("Program") sponsored by the College for Financial Planning and obtain a passing score on the Program's final exam within one (1) year of the Effective Date of this Agreement. Within ten (10) days of learning that he passed the final exam, Maloney shall inform the Department in writing that he passed the final exam. In the event Maloney fails to pass the Program's final exam within one (1) year of the Effective Date of this Agreement, Maloney shall requalify as a principal by retaking the Series 24 within a reasonable time after one (1) year after the Effective Date of this Agreement.

4. **Respondent Waddell & Reed.** Waddell & Reed agrees to the following:

A. Waddell & Reed shall be censured by the Administrator.

B. Waddell & Reed will pay a civil penalty, in the amount of \$10,000, to the Department within thirty (30) days of the Effective Date of this Agreement. The civil penalty shall be paid by corporate check, money order or cashier's check payable to "Oklahoma Department of Securities" and shall be mailed, on or before the date it is due, to the address provided in item 2.B. above.

C. Waddell & Reed will implement written supervisory procedures and compliance guidelines relating to the calculation of "substantially equal periodic payments" pursuant to Section 72(t) of the Internal Revenue Code ("IRC") within sixty (60) business days of the Effective Date of this Agreement. Waddell & Reed will provide the Department with a copy of such policies and procedures at least ten (10) business days before they are implemented. Waddell & Reed will maintain written supervisory procedures and compliance guidelines relating to the calculation of substantially equal periodic payments pursuant to Section 72(t) of the IRC as long as such topic remains applicable to the securities industry.

D. Waddell & Reed will conduct additional training regarding Section 72(t) of the IRC including, but not limited to, the calculation of the amount of "substantially equal periodic payments," as part of the firm's continuing

education for its agents and principals as long as such topic remains applicable to the securities industry.

5. **Jurisdiction.** The Administrator has jurisdiction over Respondents and the subject matter of this action.

6. **No Coercion.** Respondents enter into this Agreement voluntarily and without any duress, undue influence, or coercion by the Administrator, any employee of the Department, or any member of the Oklahoma Securities Commission.

7. **Entire Agreement; Amendment.** This writing constitutes the entire agreement of the Parties with respect to the subject matter hereof and supersedes any and all prior and contemporaneous agreements, representations, and understandings of the Parties. No supplement, modification, or amendment to this Agreement shall be binding unless executed in writing by each of the Parties hereto.

8. **Limitation on Agreement.** Nothing in this Agreement shall prohibit the Administrator from furnishing information to any other properly constituted agency or authority. In the event any other agency or authority commences an action in connection with information obtained by the Administrator against Respondents, the Administrator may assist in such actions as authorized by law.

9. **Effective Date.** This Agreement shall be effective as of the date on which it is signed by the Administrator as set forth below his signature hereto.

10. **Consideration.** In consideration for this Agreement, and except as provided in item 11 below, the Administrator will not take further action against Respondents for any conduct alleged in the Recommendation.

11. **Failure to Comply.** If Respondents fail to comply with the terms of this Agreement in any material respect, the Administrator may proceed against Respondents as authorized by law.

12. **Applicability.** This Agreement applies only to the activities of Respondents as set forth in the Recommendation and to no others.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date and year set forth below their signatures hereto.

WADDELL & REED, INC.

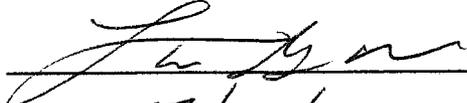
By: Mark P. Buey

Title: Senior Vice President and Associate General Counsel

Date: 7/15/08

Address: 6300 Lamar Ave  
Overland Park, KS 66202

**LONNIE G. BROWN**

  
Date: 07/09/08

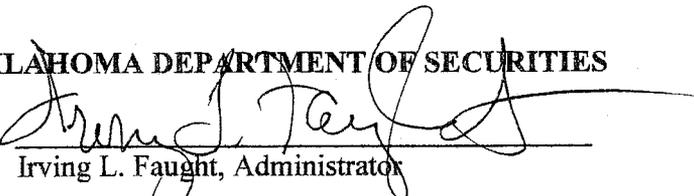
Address: 3778 Co. St. 2780  
Ninnekah, OK 73067

**JOHN K. MALONEY**

\_\_\_\_\_  
Date: \_\_\_\_\_

Address: \_\_\_\_\_  
\_\_\_\_\_

**OKLAHOMA DEPARTMENT OF SECURITIES**

By:   
Irving L. Faught, Administrator

Date: July 18, 2008

**LONNIE G. BROWN**

\_\_\_\_\_  
Date: \_\_\_\_\_

Address: \_\_\_\_\_  
\_\_\_\_\_

**JOHN K. MALONEY**

John K. Maloney  
\_\_\_\_\_

Date: 07-09-2008

Address: 508 W 15

EDMOND, OK 73013

**OKLAHOMA DEPARTMENT OF SECURITIES**

By: \_\_\_\_\_  
Irving L. Faught, Administrator

Date: \_\_\_\_\_

Approved as to form:

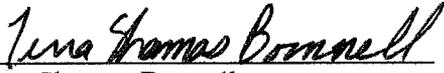
\_\_\_\_\_  
Amy E. Rush  
Senior Regulatory Counsel  
Waddell & Reed, Inc.  
6300 Lamar Avenue  
Shawnee Mission, KS 66202  
ATTORNEY FOR RESPONDENTS

\_\_\_\_\_  
Terra Shamas Bonnell  
Enforcement Attorney  
Oklahoma Department of Securities  
120 North Robinson Avenue, Suite 860  
Oklahoma City, OK 73102  
ATTORNEY FOR DEPARTMENT

Approved as to form:

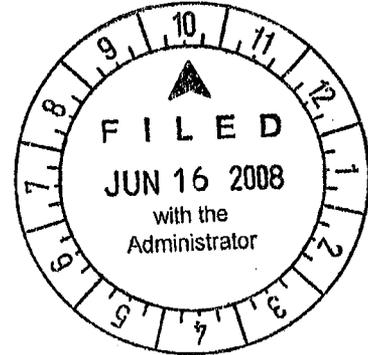


Amy E. Rush  
Senior Regulatory Counsel  
Waddell & Reed, Inc.  
6300 Lamar Avenue  
Shawnee Mission, KS 66202  
ATTORNEY FOR RESPONDENTS



Terra Shamas Bonnell  
Enforcement Attorney  
Oklahoma Department of Securities  
120 North Robinson Avenue, Suite 860  
Oklahoma City, OK 73102  
ATTORNEY FOR DEPARTMENT

STATE OF OKLAHOMA  
DEPARTMENT OF SECURITIES  
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In the Matter of:

Waddell & Reed, Inc. (CRD# 866),  
Lonnie G. Brown (CRD# 1341537), and  
John K. Maloney (CRD# 1248200).

Respondents.

ODS File No. 06-126

**ENFORCEMENT DIVISION RECOMMENDATION**

Pursuant to Section 1-602 of the Oklahoma Uniform Securities Act of 2004 ("Act"), Okla. Stat. tit. 71, §§ 1-101 through 1-701 (Supp. 2004), and Section 405 of the Oklahoma Securities Act ("Predecessor Act"), Okla. Stat. tit. 71, §§ 1-413, 501, 701 through 703 (2001 & Supp. 2003), *repealed by* the Act, the Oklahoma Department of Securities ("Department") conducted an investigation into the activities of Waddell & Reed, Inc. ("Waddell & Reed"), Lonnie G. Brown ("Brown"), and John K. Maloney ("Maloney") (collectively, "Respondents"), in connection with the offer and/or sale of securities in and/or from the state of Oklahoma. Based thereon, the following Findings of Fact, Authorities, and Conclusions of Law are submitted to the Administrator of the Department ("Administrator") in support of sanctions against Respondents.

**Findings of Fact**

**Background**

1. At all times material hereto, Waddell & Reed was a broker-dealer registered under the Predecessor Act, an investment adviser registered with the United States Securities and Exchange Commission ("SEC"), and a member of the NASD (currently known as, "FINRA"). Waddell & Reed remains registered as a broker-dealer under the Act, registered as an investment adviser with the SEC, and a member of FINRA. Waddell & Reed's main office is located in Overland Park, Kansas.

2. At all times material hereto, Brown was registered as an agent and investment adviser representative of Waddell & Reed under the Predecessor Act and remains registered as such under the Act. Brown operates, and has operated at all times material hereto, from Waddell & Reed's Office of Supervisory Jurisdiction ("OSJ") located at 508 West Fifteenth Street in Edmond, Oklahoma ("Edmond Office").

3. At all times material hereto, Maloney was registered as an agent, principal, and investment adviser representative of Waddell & Reed under the Predecessor Act and remains registered as such under the Act. Maloney is, and was at all times material hereto, the Division Manager (currently known as, "Managing Principal") of the Edmond Office and the designated principal of Brown.

4. At all times material hereto, Section 72(t)(1) of the Internal Revenue Code ("IRC") imposed an additional tax of 10 percent on the portion of distributions from qualified retirement plans includible in the taxpayer's gross income. At all times material hereto, Section 72(t)(2)(A)(iv) of the IRC provided an exception to the 10 percent tax for distributions that are "part of a series of substantially equal periodic payments ["SEPPs"] (not less frequently than annually) made for the life (or life expectancy) of the employee or the joint lives (or joint life expectancies) of such employee and his designated beneficiary." At all times material hereto, Section 72(t)(4) of the IRC provided that the exception for SEPPs does not apply if the payments are subsequently modified: (1) "before the close of the 5-year period beginning with the date of the first payment and after the employee attains 59 1/2"; or (2) "before the employee attains age 59 1/2[.]"

5. In March 1989, the Internal Revenue Service ("IRS") published Revenue Ruling 89-25 that provided guidance on what constitutes a series of SEPPs for purposes of Section 72(t)(2)(A)(iv). Revenue Ruling 89-25 set forth three methods of calculating SEPPs that have been labeled as the required minimum distribution method, the fixed amortization method, and the fixed annuitization method. Both the fixed amortization method and the fixed annuitization method rely on an "interest rate that does not exceed a reasonable interest rate on the date payments commence" in the calculation of SEPPs.

6. In October 2002, the IRS released Revenue Ruling 2002-62 that modified the provisions of Revenue Ruling 89-25 that related to SEPPs. With respect to the fixed amortization and fixed annuitization methods, Revenue Ruling 2002-62 mandates that "any interest rate that is not more than 120 percent of the federal mid-term rate . . . for either of the two months immediately preceding the month in which the distribution begins" may be used. Revenue Ruling 2002-62 also permits an individual who began his distributions using either the fixed amortization method or the fixed annuitization method to make a one time switch to the required minimum distribution method for the year of the switch and all subsequent years.

7. Prior to Revenue Ruling 2002-62, the IRS did not provide binding authority as to what was considered a "reasonable interest rate" for purposes of calculating SEPPs. However, in multiple Information Letters and Private Letter Rulings, the IRS indicated that any rate that did not exceed 120 percent of the federal mid-term rate was considered reasonable. The federal mid-term rate is published by the IRS on a monthly basis.

8. Prior to Revenue Ruling 2002-62 and at all times material hereto, Waddell & Reed did not have any compliance guidelines for its agents directly relating to section 72(t) of the IRC including, but not limited to, the calculation of SEPPs pursuant to section 72(t)(2)(A)(iv). Waddell & Reed also had not established any written procedures designed to specifically supervise the activities of its agents with respect to the calculation of SEPPs.

9. Prior to Revenue Ruling 2002-62 and at all times material hereto, Waddell & Reed provided its agents with a retirement plan calculator, in the form of a computer program, for calculating SEPPs for purposes of Section 72(t) of the IRC ("Calculator"). When an interest rate in excess of 8 percent was entered into the Calculator for purposes of determining the amount of a SEPP, the Calculator would provide a warning message. Version 99.9 of the Calculator, effective November 5, 1999, provided the following message: "Warning, if your interest rate is greater than 8% the IRS requires that you obtain a letter of consent from them." Version 2000.6 of the Calculator, effective October 25, 2000, provided this warning:

Your interest rate is too high! An interest rate of more than 8% should not be used. If your client directs you to input an interest rate of more than 8%, it is strongly recommended [sic] the client request a Private Letter Ruling [sic] from the IRS.

Both warning messages required the user to click on the "OK" button to proceed with the calculation.

10. At all times material hereto, Waddell & Reed's supervisory procedures for financial advisors stated, "Your sales presentation must be true, factual and complete and must not be misleading through misuse or omission of fact. . . . Do not guarantee investments or rates of return."

11. At all times material hereto, Waddell & Reed's supervisory procedures for financial advisors stated, "You should emphasize to clients when selling mutual funds, variable annuity/life products and other investments that are not federally guaranteed, that these securities products, while potentially providing attractive returns, are not the same as certificates of deposit (CDs), are not government insured, and have varying risks associated with them."

12. At all times material hereto, Waddell & Reed's supervisory procedures for Division Managers provided, in part:

Division Managers, assisted in some cases by Associate Managers or District Managers, are responsible for the ongoing compliance education and day-to-day supervision of the activities of all financial advisors in their respective office to assure compliance with: **The Supervisory Procedures of Waddell & Reed, Inc., . . . The Compliance Information for Financial Advisors . . . Applicable federal and state securities laws and regulations[,] [and] The Rules of the NASD . . . .** The Division Manager is charged with adequately carrying out, implementing and enforcing the written Supervisory Procedures adopted by Waddell & Reed, Inc.... The Division Manager's overall supervisory responsibility is to ensure that all securities business conducted by advisors assigned to him/her is proper.

13. At all times material hereto, Waddell & Reed's supervisory procedures for Division Managers provided, in part:

All Applications and other transaction requests involving a purchase, exchange or redemption recommended by an advisor must be submitted to the division office for review, and verification that all required forms are properly completed, prior to sending them to the home office for final review and acceptance. The Division Manager is responsible for supervising the review and verification of all recommended transactions for the following purposes: 1. **Assure Suitability** . . . 2. **Detect and Prevent Sales Irregularities** . . . 3. **Prevent Prohibited Activity**[.]

The Division Manager, or his designee, must apply a "Division Stamp" to indicate "to the home office that information pertaining to the order/recommendation has been reviewed and recorded at the division and that the Division Manager recommends the order/transaction for final acceptance by the home office."

#### Client Accounts

14. At all times material hereto, Brown was the agent of record for at least four (4) individual retirement accounts ("Relevant IRAs") that were funded with the proceeds of retirement plans from Halliburton Energy ("Halliburton"), during the years 1999 and/or 2000. The account holders of the Relevant IRAs (referred to individually as "Client A," "Client B," "Client C," and "Client D" and collectively as "Clients") were relatively unsophisticated investors who retired from Halliburton in their late forties or early fifties. After retiring, the Clients immediately began receiving SEPP distributions from the Relevant IRAs in reliance on section 72(t)(2)(A)(iv) of the IRC.

#### **Client A**

15. Client A, a married man, was an owner of a Relevant IRA. Client A was born in 1946. Client A retired from Halliburton Energy in or about January 1999.

16. Client A's co-workers referred him to Brown. Client A met with Brown two or three times during the year 1998 for financial planning services. Client A and his wife had a net worth of approximately \$525,000, including Client A's expected Halliburton retirement account. During one of the meetings, Brown, *inter alia*, asked Client A to determine the minimum annual income necessary for him and his wife. Client A determined that an annual income of approximately \$42,500 was necessary to maintain his current standard of living. Brown informed Client A that if he retired and rolled his retirement funds into an individual retirement account at Waddell & Reed, Client A could retire and withdraw \$3,600 a month from his retirement funds. Brown represented to Client A that his retirement account would have to achieve an annual rate of return of approximately 10.5 percent for Client A not to lose any of his principal. Brown assured Client A that he would make at least 10.5 percent, and would probably make an extra 8 percent, on his retirement funds.

17. In January 1999, Halliburton offered early retirement to employees who volunteered to retire on a certain date, as part of a staff reduction plan. In reliance on Brown's assurances, Client A voluntarily retired on that date. Client A was 52 years old.

18. Client A funded his Relevant IRA with approximately \$406,620 and began receiving monthly distributions in the amount of \$3,600 in March 1999. This equates to an assumed interest rate of approximately 10.35 percent using the fixed amortization method. This interest rate far exceeded 120 percent of the federal mid-term rate for March 1999.

19. A *Waddell & Reed Funds and/or United Group of Funds Flexible Withdrawal Service* form ("FWS Form"), signed by Client A on March 4, 1999, authorized the monthly withdrawal from Client A's Relevant IRA. Client A's FWS Form contained the following handwritten statement: "This is Early retirement @ 10.5%[.]" Client A's FWS Form provided instructions regarding the dollar amount of the mutual funds to be liquidated in the Relevant IRA to fund the monthly withdrawals. Client A's FWS Form does not contain any evidence of review or approval by Maloney or any other principal of Waddell & Reed.

20. An *Account Service Request* form ("ASR Form"), signed by Client A on March 19, 1999, also provided instructions regarding which mutual funds in Client A's Relevant IRA, were to be redeemed each month. Client A's ASR Form contained the following handwritten statement: "1<sup>st</sup> Installment of Early Retirement Figured @ 10.5%[.]" Client A's ASR Form does not contain any evidence of review or approval by Maloney or any other principal of Waddell & Reed.

21. In 2003, Client A went back to work full-time at Halliburton due to the substantial decline in the value of his Relevant IRA. When he returned to full-time employment, Client A started depositing his monthly withdrawals into a Roth IRA until he turned 59 ½ in April 2005 and could cease the withdrawals.

22. In or about January 2005, Client A decreased the amount of his monthly withdrawals by switching to the required minimum distribution method to determine the amount of his SEPPs.

23. In May 2005, Client A transferred his Relevant IRA out of Waddell & Reed. Client A's Relevant IRA had a market value of approximately \$212,745 at the time of transfer.

#### **Client B**

24. Client B, a married man, was an owner of a Relevant IRA. Client B was born in 1950. Client B was employed by Halliburton for approximately 29 years and retired in or about February 2000.

25. Client B's co-workers referred him to Brown. In about November or December 1999, Client B contacted Brown to determine if he could retire like several of his co-workers had recently done. Client B and his wife had savings of approximately \$32,500, in addition to the amount in Client B's Halliburton retirement account.

26. Brown met with Client B two or three times in November and/or December 1999. During one of the meetings in December 1999, Client B, or someone on his behalf, completed a Waddell & Reed form containing "Confidential Client Data." On that form, Client B's "most

significant financial concerns" were stated as: (1) "Retain Value on Retirement"; and (2) "Maintain Lifestyle". Brown informed Client B that he had enough assets to retire and to live comfortably for the rest of his life. Brown informed Client B that if he retired and rolled his retirement funds into an individual retirement account at Waddell & Reed, Client B could receive a monthly distribution of \$3,600 and not decrease the amount of his principal investment. Brown's projection was based on Client B receiving SEPPs calculated under the fixed amortization method using an interest rate between 10.5 and 11 percent. Brown explained to Client B that some of his co-workers based their SEPPs on a 12 percent interest rate. Brown assured Client B that the return on his investments would be high enough to protect the amount of his principal.

27. Client B did not request a SEPP in the amount of \$3,600 prior to Brown's suggestion of a monthly distribution in that amount. Client B could have survived on a monthly withdrawal of an amount less than \$3,600.

28. Based on Brown's assurances that he would be able to receive a monthly withdrawal of \$3,600 and retain the value of his principal, Client B decided to retire.

29. In January 2000, Client B voluntarily submitted his notice of retirement to his employer, to be effective in February 2000. Client B was forty-nine (49) years old at the time. Client B's retirement was not part of any staff reduction plan, or any other form of layoff, by his employer.

30. Client B funded his Relevant IRA with approximately \$392,209 and began receiving monthly distributions of \$3,600 in March 2000. This equates to an assumed interest rate of approximately 10.85 percent using the fixed amortization method. This interest rate far exceeded 120 percent of the federal mid-term rate for March 2000.

31. A *United Group of Funds Application Retirement Plan Account* ("UG Application") signed by Client B and Brown on January 14, 2000, authorized the purchase of certain mutual funds in Client B's Relevant IRA, the monthly withdrawal from the Relevant IRA, and the dollar amount of the mutual funds to be liquidated monthly to fund the monthly withdrawal. Client B's UG Application contains a handwritten note that states: "This is Early Retirement Set up @ 11% Pre Dist Exempt." Client B's UG Application contained a stamp indicating that the form had been reviewed and recorded on January 19, 2000, by Maloney or someone designated by him.

32. In or about April 2002, Client B transferred his Relevant IRA out of Waddell & Reed due to the substantial decline in the value of his account. Client B's Relevant IRA had a market value of approximately \$160,977 at the time of the transfer.

33. Client B was employed part-time during retirement. Client B went back to work at Halliburton full-time in May 2003 because of the continual decline in the value of his Relevant IRA.

## **Client C**

34. Client C, a single woman, was an owner of a Relevant IRA. Client C was born in 1947. Client C was employed by Halliburton for approximately 29 years and retired in or about March 2000.

35. Client C's co-workers referred her to Brown. Client C's only substantial asset was her Halliburton retirement account. Client C told Brown that she would need to be able to withdraw \$2,500 a month from her retirement funds to be able to afford to retire. Brown indicated that would be "no problem." Brown represented to Client C that she could afford to retire and still have enough money to throw a party, remodel her house, and/or go on a cruise.

36. Based on Brown's representations, Client C retired in March 2000 at the age of 52 and funded her Relevant IRA with approximately \$300,022. Client C immediately began withdrawing \$2,700 per month, which was \$200 more than was originally planned. This distribution amount assumes an interest rate of approximately 10.3 percent using the fixed amortization method. This interest rate far exceeded 120 percent of the federal mid-term rate for March 2000. Brown set up the monthly withdrawal without any expression of concern or objection.

37. A UG Application signed by Client C and Brown on March 20, 2000, authorized the purchase of certain mutual funds in Client C's Relevant IRA, the monthly withdrawal from the Relevant IRA, and the dollar amount of the mutual funds to be redeemed each month to fund the monthly withdrawal. Client C's UG Application contains a stamp indicating that it was reviewed and recorded on March 27, 2000, by Maloney or someone designated by him.

38. Client C redeemed the holdings in her Relevant IRA in or about January 2006. Client C's Relevant IRA had a market value of approximately \$1,046 at that time.

## **Client D**

39. Client D, a married man, was an owner of a Relevant IRA. Client D was born in 1949. Client D was employed by Halliburton for approximately twenty-seven years and retired in or about March 2000.

40. Client D's co-workers referred him to Brown. Client D and his wife had a net worth of approximately \$500,000, including the amount in Client D's Halliburton retirement account. Client D met with Brown and told him that he wanted to retire and receive \$3,900 a month from his retirement account. Brown informed Client D that he would have to earn 12 percent annually on his retirement funds for this to happen. Brown represented to Client D that it would be no problem to achieve an annual rate of return of 12 percent in light of the performance history of the mutual funds he was recommending.

41. In reliance on Brown's representations, Client D retired in March 2000 at the age of 50. Client D funded his Relevant IRA with approximately \$380,924 and began withdrawing \$3,900 a month in April 2000. This equates to an assumed interest rate of approximately 12.15

percent using the fixed amortization method. This interest rate far exceeded 120 percent of the federal mid-term rate for April 2000.

42. A UG Application signed by Client D and Brown on March 6, 2000, authorized the purchase of certain mutual funds in Client D's Relevant IRA, the monthly withdrawal from the Relevant IRA, and the dollar amount of the mutual funds to be redeemed each month to fund the monthly withdrawal. Client D's UG Application contained a handwritten note stating: "This is Early Retirement Set up at 12%[.]" The form contains a stamp indicating that it was reviewed and recorded on March 9, 2000, by Maloney or someone designated by him.

43. Client D's Relevant IRA was completely depleted in or about September 2005.

44. Based on optimistic market projections, Brown led his Clients to believe that they could afford to retire early, live off of monthly withdrawals from their Relevant IRAs, and live comfortably for the rest of their lives.

45. At no time prior to the beginning of the monthly withdrawals from the Relevant IRAs did Brown inform his Clients that the amounts of the monthly withdrawals were based on potentially unreasonable interest rates that could lead to adverse tax consequences and the premature depletion of the Relevant IRAs.

46. None of the Clients obtained a "letter of consent" or a Private Letter Ruling, relating to their reliance on an interest rate greater than 8 percent, from the IRS.

47. Brown failed to inform his Clients that the Calculator provided by Waddell & Reed indicated that the IRS required that they receive letters of consent before relying on interest rates in excess of 8 percent.

48. The ASR, FWS, and UG Application forms that stated the interest rates being relied upon by the Clients were "red flags" that Maloney ignored and/or failed to adequately investigate.

49. The fact that Brown had several clients, who were retiring in their late forties and early fifties and relying on SEPPs, created a "red flag" that Maloney ignored and/or failed to adequately investigate.

To the extent any of these Findings of Fact are more properly characterized as Conclusions of Law, they should be so considered.

#### Authorities

1. Section 1-602 of the Act provides in pertinent part:
  - A. The Administrator may:

1. Conduct public or private investigations within or outside of this state which the Administrator considers necessary or appropriate to determine whether a person has violated, is violating, or is about to violate this act or a rule adopted or order issued under this act, or to aid in the enforcement of this act or in the adoption of rules and forms under this act[.]
  
2. Section 1-701 of the Act provides in pertinent part:
  - A. The predecessor act exclusively governs all actions or proceedings that are pending on the effective date of this act or may be instituted on the basis of conduct occurring before the effective date of this act, but a civil action may not be maintained to enforce any liability under the predecessor act unless instituted within any period of limitation that applied when the cause of action accrued or within five (5) years after the effective date of this act, whichever is earlier.
  
3. Section 405 of the Predecessor Act (1991 & Supp. 1999 & Supp. 2000) provides in pertinent part:
  - (a) The Administrator in his discretion:
    - (1) may make such public or private investigations within or outside of this state as he deems necessary to determine whether any person has violated or is about to violate any provision of this act or any rule or order hereunder, or to aid in the enforcement of this act or in the prescribing of rules and forms hereunder[.]
  
4. Section 101 of the Predecessor Act (1991) provides in pertinent part:

It is unlawful for any person, in connection with the offer, sale, or purchase of any security, directly or indirectly

  - (1) to employ any device, scheme, or artifice to defraud,
  - (2) to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading,
  - (3) to engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person.

5. Section 406 of the Predecessor Act (Supp. 1999 & Supp. 2000) provides in pertinent part:

(a) If the Administrator reasonably believes, whether or not based upon an investigation conducted under Section 405 of this title, that a person has violated the Oklahoma Securities Act, except under the provisions of Section 202.1 or 305.2 of this title, or a rule or order of the Administrator under the Oklahoma Securities Act or has engaged in dishonest or unethical practices in the securities business, the Administrator, in addition to any specific power granted by any other section of the Oklahoma Securities Act, may impose one or more of the following sanctions:

- (1) issue an order against the person to cease and desist from engaging in such violation or dishonest or unethical practices or doing any act in furtherance thereof;
- (2) censure the person, if the person is a registered broker-dealer, agent, investment adviser, or investment adviser representative;
- (3) bar or suspend the person from association with a broker-dealer or investment adviser subject to the provisions of the Oklahoma Securities Act;
- (4) place limitations on the activities, functions, or operations of the person;
- (5) issue an order against a person who willfully violates the Oklahoma Securities Act or a rule or order of the Administrator under the Oklahoma Securities Act, imposing a civil penalty up to a maximum of Five Thousand Dollars (\$5,000.00) for a single violation or transaction or of Fifty Thousand Dollars (\$50,000.00) for multiple violations or transactions in a single proceeding or a series of related proceedings; or
- (6) recover the costs of the investigation conducted under Section 405 of this title.

6. Rule 660:10-5-42 of the Rules of the Oklahoma Securities Commission and the Administrator of the Department of Securities (as amended July 15, 1998) ("1998 Oklahoma Rules") stated in pertinent part:

(a) Purpose. This rule is intended to set forth the standards of ethical practices for broker-dealers and their agents. Any noncompliance with the Standards of Ethical Practices specified in this Section will constitute unethical practices in the securities business. The standards shall be

interpreted in such manner as will aid in effectuating the policy and provisions of the Securities Act, and so as to require that all practices of broker-dealers, and their agents, in connection with their activities in this state shall be just, reasonable and not unfairly discriminatory. The standards set forth in this Section shall apply to all broker-dealers and their agents if applicable. A broker-dealer or agent whose registration has been suspended shall be considered as nonactive during the period of suspension for purposes of applying the provisions of the standards. Nevertheless, such persons shall have all of the obligations imposed by the Securities Act, these Standards of Ethical Practices and other applicable rules and regulations of the Administrator and/or the Commission.

(b) Standards.

(1) A broker-dealer and his agents, in the conduct of his business, shall observe high standards of commercial honor and just and equitable principles of trade. A broker-dealer and his agents shall not violate any rule of a national securities exchange or national securities association of which it is a member with respect to any Client, transaction or business effected in this state.

\* \* \*

(22) The following standards shall apply to supervisory procedures:

(A) Each broker-dealer shall establish, maintain and enforce written procedures which will enable it to supervise properly the activities of each registered agent and associated person to assure compliance with applicable securities laws, rules, regulations and statements of policy promulgated by the Administrator and/or the Commission under the Securities Act.

(B) Final responsibility for proper supervision shall rest with the broker-dealer, the principal(s) of the broker-dealer registered in accordance with 660:10-5-11, and the principal(s) of the broker-dealer in each OSJ, including the main office, and the registered representatives in each non-OSJ branch office designated by the broker-dealer to carry out the supervisory responsibilities assigned to that office by the broker-dealer pursuant to the rule and regulations of the NASD. . . .

Conclusions of Law

1. Brown made untrue statements of material fact in connection with the offer, sale, or purchase of securities, in violation of Section 101 of the Predecessor Act.

2. Brown omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, in connection with the offer, sale, or purchase of securities, in violation of Section 101 of the Predecessor Act.

3. Brown failed to observe high standards of commercial honor and just and equitable principles of trade in the conduct of his business, thereby engaging in unethical practices in the securities business in violation of 660:10-5-42 of the 1998 Oklahoma Rules.

4. Waddell & Reed failed to establish, maintain, and/or enforce written procedures that would enable it to properly supervise the activities of Brown to assure compliance with applicable securities laws, rules and regulations, in violation of 660:10-5-42 of the 1998 Oklahoma Rules.

5. Maloney failed to enforce Waddell & Reed's existing written supervisory procedures in connection with the activities of Brown to assure compliance with applicable securities laws, rules and regulations, in violation of 660:10-5-42 of the 1998 Oklahoma Rules.

To the extent any of these Conclusions of Law are more properly characterized as Findings of Fact, they should be so considered.

WHEREFORE, it is recommended that the Administrator issue a final order suspending Brown and Maloney from association with Waddell & Reed for ten (10) business days; censuring Waddell & Reed; imposing civil penalties against Brown and Maloney in the amount of Five Thousand Dollars (\$5,000) each; imposing a civil penalty against Waddell & Reed in the amount of Twenty Five Thousand Dollars (\$25,000); and imposing such other sanctions as appropriate and authorized by law.

Dated this 16<sup>th</sup> day of June, 2008.

Respectfully submitted,



Terra Shamas Bonnell  
Enforcement Attorney  
Oklahoma Department of Securities  
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**STATE OF OKLAHOMA  
DEPARTMENT OF SECURITIES  
FIRST NATIONAL CENTER, SUITE 860  
120 NORTH ROBINSON  
OKLAHOMA CITY, OKLAHOMA 73102**

In the Matter of:

Waddell & Reed, Inc. (CRD# 866),  
Lonnie G. Brown (CRD# 1341537), and  
John K. Maloney (CRD# 1248200).

Respondents.

ODS File No. 06-126

**ORDER**

Pursuant to Section 1-602 of the Oklahoma Uniform Securities Act of 2004 ("Act"), Okla. Stat. tit. 71, §§ 1-101 through 1-701 (Supp. 2004), and Section 405 of the Oklahoma Securities Act ("Predecessor Act"), Okla. Stat. tit. 71, §§ 1-413, 501, 701 through 703 (2001 & Supp. 2003), *repealed by* the Act, the Enforcement Division of the Oklahoma Department of Securities ("Department") conducted an investigation into the activities of Waddell & Reed, Inc. ("Waddell & Reed"), Lonnie G. Brown ("Brown"), and John K. Maloney ("Maloney") (collectively, "Respondents"), in connection with the offer and/or sale of securities in and/or from the state of Oklahoma. Based thereon, the Enforcement Division filed an *Enforcement Division Recommendation* with the Administrator of the Department ("Administrator") on June 16, 2008, recommending the imposition of sanctions against Respondents ("Recommendation"). In order to resolve this matter and without admitting any of the findings or conclusions contained in the Notice of Opportunity for Hearing, the Recommendation and accompanying documents, except as to the Administrator's jurisdiction over the Respondents and the subject matter of this action, Respondents voluntarily executed the *Agreement*, attached hereto as "Exhibit A" and incorporated herein by reference ("Agreement").

This Order is issued pursuant to Section 1-411 of the Act. The Administrator hereby adopts the Findings of Fact and Conclusions of Law set forth in the Recommendation. The Respondents agree to the entry of the Order without admitting any of the Findings of Fact and Conclusions of Law set forth in the Recommendation, except as to the Administrator's jurisdiction over the Respondents and the subject matter of this action.

NOW THEREFORE, IT IS HEREBY ORDERED that the agent and investment adviser representative registrations of Respondent Brown are suspended for three (3) business days, beginning at 12:00 a.m. on Wednesday, July 16, 2008, and ending at 11:59 p.m. on Friday, July 18, 2008, and shall pay a civil penalty, in the amount of \$2,500, to the Department per the terms of the Agreement.

IT IS FURTHER ORDERED that Respondent Maloney shall pay a civil penalty, in the amount of \$5,000, to the Department per the terms of the Agreement.

IT IS FURTHER ORDERED that Respondent Waddell & Reed is hereby censured and shall pay a civil penalty, in the amount of \$10,000, to the Department per the terms of the Agreement.

IT IS FURTHER ORDERED that Respondents comply with all provisions of the Agreement.

Witness my Hand and the Official Seal of the Oklahoma Department of Securities this \_\_\_\_\_ day of July, 2008.

(SEAL)

\_\_\_\_\_  
IRVING L. FAUGHT, ADMINISTRATOR OF THE  
OKLAHOMA DEPARTMENT OF SECURITIES

CERTIFICATE OF SERVICE

The undersigned hereby certifies that on the \_\_\_\_\_ day of July, 2008, a true and correct copy of the above and foregoing *Order* was mailed, with postage prepaid thereon, addressed to:

Lonnie G. Brown  
508 W. 15th St  
Edmond, OK 73013

John K. Maloney  
508 W. 15th St  
Edmond, OK 73013

Amy E. Rush  
Senior Regulatory Counsel  
Waddell & Reed, Inc.  
6300 Lamar Ave  
Overland Park, KS 66202-4200

\_\_\_\_\_  
Brenda London, Paralegal