



DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS  
Business Registration Division

## DCCA News Release

**LINDA LINGLE**  
GOVERNOR

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**FOR IMMEDIATE RELEASE: August 24, 2005**

### **BROKERAGE FIRM AGREES TO REFUND HAWAII INVESTORS AND PAY RESTITUTION FOR VIOLATING THE LAW**

HONOLULU -- The Commissioner of Securities, Corinna M. Wong, and the Commissioner of Insurance, J.P. Schmidt, issued a Consent Order against a broker-dealer firm for engaging in dishonest and unethical practices in violation of the State's securities and insurance laws. The Consent Order was issued to Waddell & Reed, Inc. for its role in promoting variable annuity exchanges that were not suitable for its clients.

Waddell & Reed, Inc. agreed to pay a civil penalty of \$21,744.20 to the State and \$9,524.98 in restitution to Hawaii clients for variable annuity sales practice abuses. The company is registered as a securities broker-dealer in Hawaii. This settlement is part of an \$18 million dollar nationwide investigation by a coalition of state regulators and the National Association of Securities Dealers, a self-regulatory body for the brokerage industry.

According to the investigation, ten Hawaii investors exchanged variable annuity contracts through non-resident insurance producers associated with Waddell & Reed, Inc.

The brokerage firm encouraged its sales force to ask their clients to switch to new variable contracts without regard to surrender fees charged to its clients. To accomplish the exchanges, surrender fees in the total amount of \$9,524.98 were paid by Hawaii investors. Unlike the existing variable annuity contracts, Waddell & Reed, Inc. was paid an additional percentage of the internal fees of the new

variable annuity contracts by the issuing insurance company. The cost of these internal fees was also absorbed by the customers.

Waddell & Reed, Inc. has assured the State that it will fulfill its restitution obligations within six months. Any Hawaii residents who need more information are urged to contact the State Securities Enforcement Branch at 586-2740 on Oahu.

The toll-free number for the neighbor islands are as follows:

Big Island:	974-4000, then enter 62740 and #.
Kauai:	274-3141, then enter 62740 and #.
Maui:	984-2400, then enter 62740 and #.
Molokai & Lanai	1-800-468-4644, then enter 62740 and #.

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