

**IVY DISTRIBUTORS, INC.**

Financial Statements and Supplemental Schedules

December 31, 2018

(With Report of Independent Registered Public Accounting Firm Thereon)

## **IVY DISTRIBUTORS, INC.**

### **Notes to Financial Statements**

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#### **(1) Summary of Significant Accounting Policies**

##### **(a) Organization**

Ivy Distributors, Inc. (the Company, IDI, we, our, and us) is a wholly owned subsidiary of Ivy Investment Management Company (IICO). The Company is a broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority. IDI is a wholly owned indirect subsidiary of Waddell & Reed Financial, Inc. (WDR), a publicly traded company.

The Company, as a broker-dealer, has underwriting agreements with the Ivy Funds and Ivy Variable Insurance Portfolios (Ivy VIP) (collectively, the Funds) allowing the Company the exclusive right to sell redeemable shares of the Funds on a continuous basis. In 2018, the remaining Waddell and Reed Advisors Funds merged into the Ivy Funds with substantially similar objectives and strategies. The Company does not engage in the retail offering of the Funds, but enters into selling agreements authorizing third parties to offer the Funds. In addition, the Company receives Rule 12b-1 service and distribution fees from 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 sales management and other marketing personnel, compensation paid to other broker-dealers, overhead expenses related to 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 substantially structured in ways to conform to industry standards (*i.e.*, front-end load, back-end load, level-load, and institutional).

On December 31, 2018, W&R Capital Management Group, Inc. (WRCMG) a wholly owned indirect subsidiary of WDR merged into IDI. As a result, total assets increased \$5.1 million, total liabilities increased \$0.7 million and total stockholder's equity increased \$4.4 million.

The Company is dependent on the ongoing financial support, including capital contributions, from its parent company, IICO, due to the nature of its present operations, which results in an excess of underwriting and distribution costs over the associated revenue from such activities. The Company has a parental support agreement to continue to receive capital contributions in the future to maintain adequate capital.

##### **(b) Basis of Presentation**

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Amounts in the accompanying financial statements and notes are rounded to the nearest thousand unless otherwise stated. The Company has evaluated subsequent events through February 22, 2018, the date that these financial statements were issued and determined there are no other items to disclose.

Additionally, we changed the presentation of certain line items in the consolidated statements of income that were intended to improve the transparency of the Company's financial statements through clearer alignment of operating expenses with financial statement captions.

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Specifically, the Company revised its accounting policy related to the reporting of indirect underwriting and distribution expenses in the former underwriting and distribution caption and certain expenses historically reported as general and administrative. Expenses previously recorded as Underwriting and distribution expenses were retrospectively reclassified into (a) the following existing operating expense captions: Compensation and benefits and General and administrative, and (b) the following newly created operating expense captions: Distribution, Technology, and Marketing and advertising. Certain expenses historically reported as general and administrative were retrospectively reclassified into the following newly created operating expense captions: Technology, and Marketing and advertising. The Company considers the change in policy to be preferable and does not consider the change to be material to its financial statements.

**(c) *Use of Estimates***

GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses in the financial statements 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 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 maturities upon acquisition of 90 days or less to be cash equivalents.

**(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***

Our investment securities are comprised of investments in sponsored funds and other debt securities. Sponsored funds, which include the Funds, are investments we have made to seed new share class offerings. Investments in sponsored funds are classified as equity securities measured at fair value through net income (when the Company owns less than 20% of the fund). Realized gains and losses on sponsored funds are computed using the average cost method. The investments in debt securities are investments made for general corporate investment purposes. Investments in debt securities are classified as trading and unrealized holding gains and losses are included in earnings.

**(g) *Property and Equipment***

Property and equipment are recorded 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

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incurred. Depreciation and amortization are calculated using the straight-line method over the estimated useful life of the related asset (or lease term, if shorter), generally 10 years for furniture and fixtures; one to 10 years for data processing equipment, computer software and other equipment; and up to 5 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 balance sheet and were \$658 thousand as of December 31, 2018. Amortization begins when the project is complete and ready for its intended use and continues over the estimated useful life, generally 1 to 5 years.

**(i) *Deferred Sales Commissions***

We defer certain costs, principally sales commissions and related compensation, which are paid to 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 sold prior to January 1, 2014 are amortized on a straight-line basis over five years, which approximates the expected life of the shareholders’ investments. Effective January 1, 2014, the Company suspended sales of Class B shares. The costs incurred at the time of the sale of Class C shares are amortized on a straight-line basis over 12 months. We recover deferred sales commissions and related compensation through Rule 12b-1 and other distribution fees, which are paid on the Class B and Class C shares of the Ivy Funds, along with contingent deferred sales charges (“CDSCs”) paid by shareholders who redeem their shares prior to completion of the specified holding period (six years for a Class B share and 12 months for a Class C share). Should we lose our ability to recover deferred sales commissions through distribution fees or CDSCs, the value of these assets would immediately decline, as would future cash flows. We periodically review the recoverability of the deferred sales commission assets if events or changes in circumstances indicate that their carrying amount may not be recoverable and adjust them accordingly. Impairment adjustments are recognized in operating income as a component of amortization of deferred sales commissions.

**(j) *Revenue Recognition***

As of January 1, 2018, the Company adopted ASU 2014-09, “Revenue from Contracts with Customers” and all subsequent ASUs that modified Accounting Standards Codification (“ASC”) 606, “Revenue from Contracts with Customers.” The Company elected to apply the standard utilizing the cumulative effect approach. The implementation of the new standard did not have a material impact on the measurement or recognition of revenue.

The Company, as principal underwriter and national distributor of the Funds shares, purchases shares from the Funds at net asset value to fill orders received from investment dealers. The Company is permitted to resell such shares at the public offering price, allowing for discounts

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to dealers, if any. The difference in the purchase price and the resale price constitutes underwriting fee revenue to the Company.

Underwriting and distribution commission revenues resulting from the sale of investment products are recorded upon satisfaction of performance obligations, which occurs on the trade date. When a client purchases Class A or Class E shares (front-end load), the client pays an initial sales charge of up to 5.75% of the amount invested. The sales charge for Class A or Class E shares typically declines as the investment amount increases. In addition, investors may combine their purchases of all fund shares to qualify for a reduced sales charge. For client purchases of Class B shares (back-end load) prior to January 1, 2014, and Class C shares (level load) we do not charge an initial sales charge. Effective January 1, 2014, the Company suspended sales of Class B shares.

Under a Rule 12b-1 service plan, the Funds may charge a maximum fee of 0.25% of the average daily net assets under management for Class B and C shares for expenses paid to broker/dealers and other sales professionals in connection with providing ongoing services to the Funds' shareholders and/or maintaining the Funds' shareholder accounts, with the exception of the Funds' Class R shares, for which the maximum fee is 0.50% and for the Class I and N shares, which do not have a service fee charged. The Funds' Class B and Class C shares may charge a maximum of 0.75% of the average daily net assets under management under a Rule 12b-1 distribution plan to broker/dealers and other sales professionals for their services in connection with distributing shares of that class. The Fund's Class A, E, and Y shares may charge a maximum fee of 0.25% of the average daily net assets under management under a Rule 12b-1 service and distribution plan for expenses detailed previously.

Through a revenue sharing allocation plan with its affiliates, the Company received 20 basis points in January 2018 and 21 basis points from February 2018 to December 2018 on average daily net assets under management.

**(k) Advertising and Promotion**

The Company expenses all advertising and promotion costs as advertising or events take place. Advertising expense, which is recorded in marketing and advertising expense in the statement of operations, was \$8.1 million for the year ended December 31, 2018. In addition, advertising and promotion costs eligible as 12b-1 expense was \$630 thousand for the year ended December 31, 2018.

**(l) 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 a separate federal income tax return 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.

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The recognition or derecognition of income tax expense related to uncertain tax positions is determined under the guidance as prescribed by ASC 740 “*Income Taxes*.” Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. A valuation allowance is recognized to reduce 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 liabilities are measured using enacted tax rates that will be in effect when they are expected to be realized or settled. The effect on the measurement of deferred tax assets and liabilities of a change in income tax law is recognized in earnings in the period that includes the enactment date.

#### (2) New Accounting Guidance

##### *New Accounting Guidance Adopted*

On January 1, 2018, the Company adopted ASU 2014-09, “*Revenue from Contracts with Customers*.” This ASU requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This standard also specifies the accounting for certain costs to obtain or fulfill a contract with a customer. The Company applied the five-step method detailed in this ASU to all revenue streams and elected the cumulative effect approach. The implementation of this ASU did not have a material impact on the measurement or recognition of revenue from prior periods. See Note 1 - Summary of Significant Accounting Policies and Note 3 – Revenue Recognition, for additional accounting policy information and the additional disclosures required by this ASU.

On January 1, 2018, the Company adopted ASU 2017-07, “*Compensation-Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*.” This ASU changed the income statement presentation of our noncontributory retirement plan that covers substantially all employees (the “Pension Plan”) by requiring separation between operating expense (service cost component) and non-operating expense (all other components, including interest cost, amortization of prior service cost, curtailments and settlements, etc.). In addition, only the service cost component is eligible for capitalization as part of an asset. The adoption of this ASU had no effect on our net income because it only impacts the classification of certain information on the consolidated statements of operations. An amendment to freeze our noncontributory retirement plan that covers substantially all employees was approved effective September 30, 2017, therefore, after September 30, 2017, we no longer incur service costs. The service cost component of net periodic benefit cost is recognized in compensation and benefits.

##### *New Accounting Guidance Not Yet Adopted*

In August 2018, FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which eliminates certain disclosure requirements for fair value measurements, requires entities to disclose new information, and modifies existing disclosure requirements. This ASU is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2019, with

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early adoption permitted. Upon adoption of this ASU, disclosure changes will be reflected in our financial statements and related disclosures.

In August 2018, FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). This ASU is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. We are evaluating the impact the adoption of this ASU will have on our financial statements and related disclosures.

#### (3) Revenue Recognition

Revenue recognized in the statement of operations is considered to be revenue from contracts with customers, with the exception of Revenue sharing (see Note 12 Related Party Transactions). The vast majority of revenue is determined based on average assets and is earned daily or monthly or is transactional and is earned on the trade date. As such, revenue from remaining performance obligations is not significant. The following table depicts the disaggregation of revenue by product for the year ended December 31, 2018:

<b>Underwriting and Distribution Fees:</b>	
Rule 12b-1 service and distribution fees	\$ 135,578
Sales commissions on front-end load mutual funds	3,436
Other revenues	563
Total underwriting and distribution fees	<u>139,577</u>
<b>Revenue sharing</b>	<u>61,796</u>
<b>Total revenues</b>	<u><u>\$ 201,373</u></u>

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#### (4) Investment Securities

Investments at December 31, 2018 are as follows (in thousands):

	<u>Fair value</u>
Trading securities:	
Corporate bonds	\$ 25,938
Sponsored funds	2,875
U.S. Treasury bills	1,962
Commerical paper	<u>997</u>
Total investment securities	<u>\$ 31,772</u>

#### *Maturities of Fixed Income Securities*

Corporate bonds, U.S. Treasury bills, and Commercial paper accounted for as trading and held as of December 31, 2018 mature as follows:

	<u>Fair Value</u>
Within one year	\$ 13,975
After one year but within five years	<u>14,922</u>
	<u>\$ 28,897</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 carrying amounts of commercial paper are measured at amortized cost, which approximates fair value due to the short-time between purchase and expected maturity of the investments. Depending on the nature of the inputs, these investments are generally classified as Level 1 or 2 within the fair value hierarchy. U.S.



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Treasury bills are valued upon quoted market prices for similar assets in active markets, quoted prices for identical or similar assets that are not active and inputs other than quoted prices that are observable or corroborated by observable market data. 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.

The following table summarizes our investment securities as of December 31, 2018 that are recognized in our consolidated balance sheet using fair value measurements based on the differing levels of inputs.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<u>(In thousands)</u>			
<b>Trading Securities:</b>				
Commercial paper	—	997	—	997
Corporate bonds	—	25,938	—	25,938
U.S. Treasury bills	—	1,962	—	1,962
Sponsored funds	2,875	—	—	2,875
Total	<u>\$ 2,875</u>	<u>28,897</u>	<u>—</u>	<u>31,772</u>

## **(5) Property and Equipment**

A summary of property and equipment at December 31, 2018 is as follows (in thousands):

		<u>Estimated useful lives</u>
Furniture and fixtures	\$ 687	10 years
Equipment and computer software	7,155	1 – 10 years
Leasehold improvements	<u>101</u>	1 – 5 years
Property and equipment, at cost	7,943	
Accumulated depreciation	<u>(4,583)</u>	
Property and equipment, net	<u>\$ 3,360</u>	

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Depreciation expense for the year ended December 31, 2018 was \$974 thousand. At December 31, 2018, we have property and equipment under capital lease with a cost of \$77 thousand and accumulated depreciation of \$53 thousand.

#### (6) Income Taxes

The benefit for income taxes for the year ended December 31, 2018 consists of the following (in thousands):

Current:	
Federal	\$ (4,931)
State	(665)
	<u>(5,596)</u>
Deferred taxes	(188)
	<u>(188)</u>
Income tax benefit	\$ <u><u>(5,784)</u></u>

Following is a reconciliation between the income tax benefit attributable to loss from operations and the amount computed by multiplying the loss before income taxes by the statutory federal income tax rate of 21% (in thousands):

Expected federal income tax benefit	\$ (5,545)
State income tax benefit, net of federal liability	(544)
Non deductible expenses	303
Federal tax incentives	(265)
Other	267
	<u>267</u>
Income tax benefit	\$ <u><u>(5,784)</u></u>

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The income tax effects of temporary differences that give rise to significant portions of the deferred tax liabilities and deferred tax assets at December 31, 2018 are presented as follows (in thousands):

Deferred tax assets:	
State net operating loss carryforwards	\$ 3,354
Share based compensation	334
Accrued expenses	290
Unrealized losses on investments	117
Other	19
	<hr/>
Total gross deferred tax assets	4,114
Deferred tax liabilities:	
Property and equipment	(526)
Benefit plan	(106)
Other	(119)
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Total gross deferred tax liabilities	(751)
Valuation allowance	(3,354)
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Net deferred tax asset	\$ 9
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As of December 31, 2018, the Company has state 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 \$3.4 million at December 31, 2018. The carryforwards, if not utilized, will expire between 2019 and 2038. Management believes it is not more likely than not that the Company will generate sufficient future taxable income in certain states to realize the benefit of these state net operating loss carryforwards, and accordingly, a valuation allowance in the amount of \$3.4 million has been established at December 31, 2018.

As disclosed in note 1, the Company joins in filing certain consolidated federal and state income tax returns with its ultimate parent, WDR. The Company participates in an intercompany tax sharing arrangement, whereby WDR's consolidated federal and state income tax liabilities are allocated to each subsidiary based on the taxable income or loss generated by each subsidiary. WDR has unrecognized tax benefits that will be settled under the intercompany tax sharing arrangement if WDR experiences an unfavorable outcome due to a future event. As of December 31, 2018, the Company has included \$0.1 million (\$0.1 million net of federal benefit) in other noncurrent liabilities for the amount it would owe WDR based on settlement of WDR's unrecognized tax benefits under the intercompany tax sharing arrangement for consolidated state tax filings.

The Company's accounting policy with respect to interest and penalties related to income tax uncertainties is to classify these amounts as income taxes.

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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 allocation of income among tax jurisdictions. The Company is currently under audit in a state jurisdiction in which it participated in the filing of a combined tax return with WDR. Settlement of this audit is not anticipated to have a significant impact on reported income or loss. The 2015, 2016, 2017, and 2018 federal income tax returns are open tax years that remain subject to potential future audit. State income tax returns for all years after 2014, and in certain states, income tax returns for 2014 are subject to potential future audit by tax authorities in the Company's major state tax jurisdictions.

#### **(7) Pension Plan and Postretirement Benefits Other Than Pension**

The Company participates in the WDR sponsored non-contributory retirement plan (the Plan) that covers substantially all employees. Benefits payable under the Plan are based on employees' years of service and compensation during the final ten years of employment. On July 26, 2017, the Compensation Committee of the Company's Board of Directors approved an amendment to freeze the Pension Plan effective September 30, 2017. After September 30, 2017, participants in the Pension Plan have not accrued additional benefits for future service or compensation. Participants will retain benefits accumulated as of September 30, 2017 in accordance with the terms of the Pension Plan. In accordance with applicable accounting standards, the Pension Plan's assets and liabilities were remeasured as of July 31, 2017, the date participants were notified of the freeze. WDR allocates pension expense or benefit to the Company for the Plan and such benefit for 2018 was \$0.7 million.

As of December 31, 2018, the total projected benefit obligation of the Plan is \$154.5 million, of which \$7.6 million relates to the Company. The total pension benefits asset (representing the pension plan assets in excess of the projected benefit obligation) recorded on the balance sheet at December 31, 2018 is \$8.5 million, of which \$0.4 million relates to the Company and is included as a noncurrent pension asset on the Company's balance sheet.

#### **(8) 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 to substantially all of our employees. 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, 2018 were \$0.8 million.

#### **(9) Uniform Net Capital Rule 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 to 1. At December 31, 2018, the Company had net capital of \$25.7 million that was \$24.4 million in excess of its required net capital of \$1.3 million. The Company's ratio of aggregate indebtedness to net capital was 0.8 to 1.0 at December 31, 2018.

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The difference between net capital and stockholder's equity is primarily the nonallowable assets that are excluded from net capital. See Schedule 1 for additional information regarding net capital.

#### **(10) 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).

#### **(11) Related Party Transactions**

The current amount due to affiliates at December 31, 2018 represents amounts due for administrative and other services. The current amount due from affiliates at December 31, 2018 represents noninterest-bearing advances for current operating expenses and commissions due or payable from the sales of affiliates' products.

Through a revenue sharing allocation plan with affiliates, the Company received \$61.8 million from affiliates based on average assets under management during 2018. In addition, the Company incurs service related expenses from affiliates for accounting, legal, marketing, rent, and other expenses. During 2018, the Company incurred \$24.7 million in expenses for services provided by affiliates, which is captured within General and Administrative expense. These are based on cost to provide services and do not necessarily represent the cost of these services had they been obtained from a third party.

The Company compensates affiliates for point of sale commissions and Rule 12b-1 fees on sales of the Ivy and Ivy VIP Funds by the affiliates. Accordingly, during 2018, the Company recorded \$63.9 million which is captured within Distribution expense. A portion of these charges were capitalized as deferred sales commissions (note 1).

The Company has agreements with the Funds pursuant to Rule 12b-1 under the Investment Company Act of 1940, as amended, for which distribution and service fees are collected from the Funds for distribution of mutual fund shares, for costs such as advertising and commissions paid to broker-dealers, and for providing ongoing services to shareholders of the Funds. During 2018 the Company received \$135.6 million for services provided or related to the Funds, which is captured within Underwriting and distribution fees.

WDR allocates expenses for nonvested shares of WDR stock to the Company that, in turn, are granted to certain key personnel of the Company. For the year ended December 31, 2018, the Company recorded share-based compensation expense totaling \$2.5 million that is included in compensation and related costs in the consolidated statement of earnings.

The Company has a parental support agreement to continue to receive capital contributions in the future (Note 1).

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#### **(12) Concentrations**

The Company has dealer agreements with several hundred broker-dealer firms. During the year ended December 31, 2018, four firms were responsible for approximately 46% of the Company's mutual fund sales.

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents held. The Company maintains cash and cash equivalents with various financial institutions. Cash deposits maintained at financial institutions may exceed the federally insured limit.

#### **(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 establishes reserves for litigation and similar matters when those matters present material loss contingencies that management determines to be both probable and reasonably estimable in accordance with ASC 450, "*Contingencies Topic*." 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. The Company discloses the nature of the contingency when management believes it is reasonably possible the outcome may be significant to the Company's consolidated financial statements 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 must be disclosed. Management's judgment is required related to contingent liabilities because the outcomes are difficult to predict. As of December 31, 2018 there were no contingencies recorded on the balance sheet.