

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED September 30, 2021

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____ TO _____
Commission file number: 001-35733

Silvercrest Asset Management Group Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction
of Incorporation or Organization)

45-5146560
(I.R.S. Employer
Identification No.)

1330 Avenue of the Americas, 38th Floor
New York, New York 10019
(Address of Principal Executive Offices and Zip Code)

(212) 649-0600
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock, \$0.01 par value per share	SAMG	The Nasdaq Global Market

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Securities Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of outstanding shares of the registrant's Class A common stock, par value \$0.01 per share, and Class B common stock, par value \$0.01 per share, as of November 1, 2021 was 9,653,214 and 4,815,460, respectively.

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Except where the context requires otherwise and as otherwise set forth herein, in this report, references to the “Company”, “we”, “us” or “our” refer to Silvercrest Asset Management Group Inc. (“Silvercrest”) and its consolidated subsidiary, Silvercrest L.P., the managing member of our operating subsidiary (“Silvercrest L.P.” or “SLP”). SLP is a limited partnership whose existing limited partners are referred to in this report as “principals”.

Forward-Looking Statements

This report contains, and from time to time our management may make, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, each as amended. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to risks, uncertainties and assumptions. These statements are only predictions based on our current expectations and projections about future events. Important factors that could cause actual results, level of activity, performance or achievements to differ materially from those indicated by such forward-looking statements include but are not limited to: incurrence of net losses, fluctuations in quarterly and annual results, adverse economic or market conditions, our expectations with respect to future levels of assets under management, inflows and outflows, our ability to retain clients from whom we derive a substantial portion of our assets under management, our ability to maintain our fee structure, our particular choices with regard to investment strategies employed, our ability to hire and retain qualified investment professionals, the cost of complying with current and future regulation coupled with the cost of defending ourselves from related investigations or litigation, failure of our operational safeguards against breaches in data security, privacy, conflicts of interest or employee misconduct, our expected tax rate, and our expectations with respect to deferred tax assets, adverse economic or market conditions, including the continued adverse effects of the coronavirus pandemic, incurrence of net losses, adverse effects of management focusing on implementation of a growth strategy, failure to develop and maintain the Silvercrest brand and other factors disclosed under “Risk Factors” in our annual report on Form 10-K for the year ended December 31, 2020 which is accessible on the SEC’s website at www.sec.gov. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by law.

Part I – Financial Information

Item 1. Financial Statements

Silvercrest Asset Management Group Inc.
Condensed Consolidated Statements of Financial Condition
(Unaudited)
(In thousands, except share and par value data)

	September 30, 2021	December 31, 2020
Assets		
Cash and cash equivalents	\$ 65,930	\$ 62,498
Investments	53	914
Receivables, net	9,386	8,341
Due from Silvercrest Funds	2,188	1,018
Furniture, equipment and leasehold improvements, net	5,272	5,523
Goodwill	63,675	63,675
Operating lease assets	26,580	30,068
Finance lease assets	276	254
Intangible assets, net	24,582	26,553
Deferred tax asset—tax receivable agreement	11,100	11,397
Prepaid expenses and other assets	3,870	3,563
Total assets	\$ 212,912	\$ 213,804
Liabilities and Equity		
Accounts payable and accrued expenses	\$ 18,763	\$ 18,040
Accrued compensation	31,567	33,849
Borrowings under credit facility	9,927	12,600
Operating lease liabilities	32,896	36,127
Finance lease liabilities	283	259
Deferred tax and other liabilities	9,651	9,530
Total liabilities	103,087	110,405
Commitments and Contingencies (Note 10)		
Equity		
Preferred Stock, par value \$0.01, 10,000,000 shares authorized; none issued and outstanding, as of September 30, 2021 and December 31, 2020	—	—
Class A common stock, par value \$0.01, 50,000,000 shares authorized; 9,680,411 and 9,653,214 shares issued and outstanding as of September 30, 2021, respectively; 9,650,692 shares issued and outstanding as of December 31, 2020	97	96
Class B common stock, par value \$0.01, 25,000,000 shares authorized; 4,815,460 and 4,721,646 issued and outstanding, as of September 30, 2021 and December 31, 2020, respectively	47	46
Additional Paid-In Capital	51,408	51,039
Treasury stock, at cost, 27,197 and 0 shares as of September 30, 2021 and December 31, 2020, respectively	(418)	—
Retained earnings	24,363	19,498
Total Silvercrest Asset Management Group Inc.'s equity	75,497	70,679
Non-controlling interests	34,328	32,720
Total equity	109,825	103,399
Total liabilities and equity	\$ 212,912	\$ 213,804

See accompanying notes to condensed consolidated financial statements.

Silvercrest Asset Management Group Inc.
Condensed Consolidated Statements of Operations
(Unaudited)
(In thousands, except share and per share data)

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Revenue				
Management and advisory fees	\$ 32,248	\$ 26,148	\$ 94,435	\$ 76,554
Performance fees	86	—	86	—
Family office services	1,127	1,034	3,278	3,014
Total revenue	<u>33,461</u>	<u>27,182</u>	<u>97,799</u>	<u>79,568</u>
Expenses				
Compensation and benefits	18,758	15,142	54,882	44,217
General and administrative	6,522	7,091	21,706	16,431
Total expenses	<u>25,280</u>	<u>22,233</u>	<u>76,588</u>	<u>60,648</u>
Income before other (expense) income, net	<u>8,181</u>	<u>4,949</u>	<u>21,211</u>	<u>18,920</u>
Other (expense) income, net				
Other (expense) income, net	43	8	58	23
Interest income	1	2	5	12
Interest expense	(92)	(120)	(294)	(445)
Total other (expense) income, net	<u>(48)</u>	<u>(110)</u>	<u>(231)</u>	<u>(410)</u>
Income before provision for income taxes	<u>8,133</u>	<u>4,839</u>	<u>20,980</u>	<u>18,510</u>
Provision for income taxes	1,779	1,359	4,630	4,558
Net income	<u>6,354</u>	<u>3,480</u>	<u>16,350</u>	<u>13,952</u>
Less: net income attributable to non-controlling interests	(2,631)	(1,421)	(6,740)	(5,871)
Net income attributable to Silvercrest	<u>\$ 3,723</u>	<u>\$ 2,059</u>	<u>\$ 9,610</u>	<u>\$ 8,081</u>
Net income per share:				
Basic	<u>\$ 0.38</u>	<u>\$ 0.22</u>	<u>\$ 0.99</u>	<u>\$ 0.85</u>
Diluted	<u>\$ 0.38</u>	<u>\$ 0.22</u>	<u>\$ 0.99</u>	<u>\$ 0.85</u>
Weighted average shares outstanding:				
Basic	<u>9,670,054</u>	<u>9,532,362</u>	<u>9,661,610</u>	<u>9,478,695</u>
Diluted	<u>9,691,103</u>	<u>9,540,604</u>	<u>9,676,639</u>	<u>9,488,259</u>

See accompanying notes to condensed consolidated financial statements.

Silvercrest Asset Management Group Inc.
Condensed Consolidated Statements of Changes in Equity
(Unaudited)
(In thousands)

	Class A Common Stock Shares	Class A Common Stock Amount	Class B Common Stock Shares	Class B Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Total Silvercrest Asset Management Group Inc.'s Equity	Non- controlling Interest	Total Equity
January 1, 2020	9,330	\$ 93	5,031	\$ 49	\$ 49,246	\$ 15,648	\$ 65,036	\$ 32,771	\$ 97,807
Distributions to partners	—	—	—	—	—	—	—	(2,226)	(2,226)
Repayment of notes receivable from partners	—	—	—	—	—	—	—	300	300
Equity-based compensation	—	—	—	—	9	—	9	100	109
Net Income	—	—	—	—	—	5,532	5,532	4,158	9,690
Deferred tax, net of amounts payable under tax receivable agreement	—	—	—	—	(364)	—	(364)	—	(364)
Accrued interest on notes receivable from partners	—	—	—	—	—	—	—	(2)	(2)
Share conversion	176	2	(176)	(2)	1,149	—	1,149	(1,149)	—
Dividends paid on Class A common stock - \$ 0.15 per share	—	—	—	—	—	(1,520)	(1,520)	—	(1,520)
March 31, 2020	9,506	\$ 95	4,855	\$ 47	\$ 50,040	\$ 19,660	\$ 69,842	\$ 33,952	\$ 103,794
Distributions to partners	—	—	—	—	—	—	—	(2,798)	(2,798)
Repayment of notes receivable from partners	—	—	—	—	—	—	—	—	—
Equity-based compensation	2	—	9	—	10	—	10	147	157
Net Income	—	—	—	—	—	490	490	292	782
Deferred tax, net of amounts payable under tax receivable agreement	—	—	—	—	8	—	8	—	8
Accrued interest on notes receivable from partners	—	—	—	—	—	—	—	(2)	(2)
Share conversion	12	—	(12)	—	88	—	88	(88)	—
Dividends paid on Class A common stock - \$ 0.16 per share	—	—	—	—	—	(1,523)	(1,523)	—	(1,523)
June 30, 2020	9,520	\$ 95	4,852	\$ 47	\$ 50,146	\$ 18,627	\$ 68,915	\$ 31,503	\$ 100,418
Distributions to partners	—	—	—	—	—	—	—	(1,497)	(1,497)
Repayment of notes receivable from partners	—	—	—	—	—	—	—	—	—
Equity-based compensation	1	—	—	—	52	—	52	169	221
Net Income	—	—	—	—	—	2,059	2,059	1,421	3,480
Deferred tax, net of amounts payable under tax receivable agreement	—	—	—	—	(176)	—	(176)	—	(176)
Accrued interest on notes receivable from partners	—	—	—	—	—	—	—	(2)	(2)
Share conversion	24	—	(24)	—	163	—	163	(163)	—
Dividends paid on Class A common stock - \$ 0.16 per share	—	—	—	—	—	(1,531)	(1,531)	—	(1,531)
September 30, 2020	9,545	\$ 95	4,828	\$ 47	\$ 50,185	\$ 19,155	\$ 69,482	\$ 31,431	\$ 100,913

See accompanying notes to condensed consolidated financial statements.

Silvercrest Asset Management Group Inc.
Condensed Consolidated Statements of Changes in Equity
(Unaudited)
(In thousands)

	Class A Common Stock Shares	Class A Common Stock Amount	Class B Common Stock Shares	Class B Common Stock Amount	Additional Paid-In Capital	Treasury Stock Shares	Treasury Stock Amount	Retained Earnings	Total Silvercrest Asset Management Group Inc.'s Equity	Non- controlling Interest	Total Equity
January 1, 2021	9,651	\$ 96	4,722	\$ 46	\$ 51,039	—	\$ —	\$19,498	\$ 70,679	\$ 32,720	\$103,399
Distributions to partners	—	—	—	—	—	—	—	—	—	(1,758)	(1,758)
Issuance of notes receivable from partners	—	—	—	—	—	—	—	—	—	(475)	(475)
Issuance of Class B shares	—	—	56	1	—	—	—	—	1	475	476
Repayment of notes receivable from partners	—	—	—	—	—	—	—	—	—	228	228
Equity-based compensation	—	—	—	—	—	—	—	—	—	469	469
Net Income	—	—	—	—	—	—	—	2,552	2,552	1,783	4,335
Deferred tax, net of amounts payable under tax receivable agreement	—	—	—	—	7	—	—	—	7	—	7
Accrued interest on notes receivable from partners	—	—	—	—	—	—	—	—	—	(2)	(2)
Share conversion	8	—	(8)	—	56	—	—	—	56	(56)	—
Dividends paid on Class A common stock - \$ 0.16 per share	—	—	—	—	—	—	—	(1,545)	(1,545)	—	(1,545)
March 31, 2021	9,658	\$ 96	4,770	\$ 47	\$ 51,102	—	\$ —	\$20,505	\$ 71,750	\$ 33,384	\$105,134
Distributions to partners	—	—	—	—	—	—	—	—	—	(3,592)	(3,592)
Issuance of notes receivable from partners	—	—	—	—	—	—	—	—	—	—	—
Issuance of Class B shares	—	—	2	—	—	—	—	—	—	25	25
Repayment of notes receivable from partners	—	—	—	—	—	—	—	—	—	—	—
Equity-based compensation	1	1	21	—	55	—	—	—	56	237	293
Net Income	—	—	—	—	—	—	—	3,335	3,335	2,326	5,661
Deferred tax, net of amounts payable under tax receivable agreement	—	—	—	—	7	—	—	—	7	—	7
Accrued interest on notes receivable from partners	—	—	—	—	—	—	—	—	—	(1)	(1)
Share conversion	11	—	(11)	—	76	—	—	—	76	(76)	—
Dividends paid on Class A common stock - \$ 0.16 per share	—	—	—	—	—	—	—	(1,549)	(1,549)	—	(1,549)
June 30, 2021	9,670	\$ 97	4,782	\$ 47	\$ 51,240	—	\$ —	\$22,291	\$ 73,675	\$ 32,303	\$105,978
Distributions to partners	—	—	—	—	—	—	—	—	—	(1,471)	(1,471)
Issuance of notes receivable from partners	—	—	—	—	—	—	—	—	—	—	—
Issuance of Class B shares	—	—	44	—	—	—	—	—	—	674	674
Repayment of notes receivable from partners	—	—	—	—	—	—	—	—	—	—	—
Equity-based compensation	—	—	—	—	75	—	—	—	75	269	344
Net Income	—	—	—	—	—	—	—	3,723	3,723	2,631	6,354
Deferred tax, net of amounts payable under tax receivable agreement	—	—	—	—	16	—	—	—	16	—	16
Accrued interest on notes receivable from partners	—	—	—	—	—	—	—	—	—	(1)	(1)
Share conversion	11	—	(11)	—	77	—	—	—	77	(77)	—
Purchase of shares of Class A common stock of Silvercrest Asset Management Group Inc.	(27)	—	—	—	—	27	(418)	—	(418)	—	(418)
Dividends paid on Class A common stock - \$ 0.17 per share	—	—	—	—	—	—	—	(1,651)	(1,651)	—	(1,651)
September 30, 2021	9,653	\$ 97	4,815	\$ 47	\$ 51,408	27	\$ (418)	\$24,363	\$ 75,497	\$ 34,328	\$109,825

See accompanying notes to condensed consolidated financial statements.

Silvercrest Asset Management Group Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	Nine months ended September 30,	
	2021	2020
Cash Flows From Operating Activities		
Net income	\$ 16,350	\$ 13,952
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity-based compensation	1,107	456
Depreciation and amortization	2,942	2,995
Deferred income taxes	452	1,741
Non-cash interest on notes receivable from partners	(4)	(6)
Interest on notes payable	27	—
Non-cash lease expense	3,488	2,382
Distributions received from investment funds	861	1,765
Cash flows due to changes in operating assets and liabilities:		
Receivables and Due from Silvercrest Funds	(2,215)	207
Prepaid expenses and other assets	(657)	73
Accounts payable and accrued expenses	4,807	(1,181)
Accrued compensation	(2,282)	(9,698)
Operating lease liabilities	(3,231)	(2,594)
Deferred and other liabilities	(2)	13
Net cash provided by operating activities	21,643	10,105
Cash Flows From Investing Activities		
Acquisition of furniture, equipment and leasehold improvements	\$ (630)	\$ (453)
Net cash used in investing activities	(630)	(453)
Cash Flows From Financing Activities		
Earn-outs paid related to acquisitions	\$ (3,045)	\$ (741)
Repayments of notes payable	(2,700)	(2,700)
Principal payments on financing leases	(88)	(81)
Distributions to partners	(6,821)	(6,521)
Dividends paid on Class A common stock	(4,737)	(4,570)
Purchase of shares of Class A common stock of Silvercrest Asset Management Group Inc.	(418)	—
Payments from partners on notes receivable	228	300
Net cash used in financing activities	(17,581)	(14,313)
Net increase (decrease) in cash and cash equivalents	3,432	(4,661)
Cash and cash equivalents, beginning of period	62,498	52,832
Cash and cash equivalents, end of period	\$ 65,930	\$ 48,171

	Nine months ended September 30,	
	2021	2020
Supplemental Disclosures of Cash Flow Information		
Net cash paid during the period for:		
Income taxes	\$ 3,999	\$ 2,775
Interest	240	419
Supplemental Disclosures of Non-cash Financing and Investing Activities		
Recognition of deferred tax assets as a result of share conversions	\$ 53	\$ 703
Notes receivable from new partners issued for capital contributions to Silvercrest L.P.	475	—
Assets acquired under finance lease	—	78
Issuance of Class B shares of Silvercrest L.P. in conjunction with the acquisition of Neosho	25	—
Issuance of Class B shares of Silvercrest L.P. in conjunction with the acquisition of Neosho, par value \$0.01	—	—
Issuance of Class B shares of Silvercrest L.P. in conjunction with the acquisition of Cortina	674	—
Issuance of Class B shares of Silvercrest L.P. in conjunction with the acquisition of Cortina, par value \$0.01	—	—
Accrued dividends	8	4

See accompanying notes to condensed consolidated financial statements.

Silvercrest Asset Management Group Inc.
Notes to Condensed Consolidated Financial Statements
As of September 30, 2021 and December 31, 2020 and for the Three and Nine Months ended September 30, 2021 and 2020
(Unaudited)
(Dollars in thousands, except per share and par value data and as otherwise indicated)

1. ORGANIZATION AND BUSINESS

Silvercrest Asset Management Group Inc. (“Silvercrest”), together with its consolidated subsidiary, Silvercrest L.P., a limited partnership, (collectively the “Company”), was formed as a Delaware corporation on July 11, 2011. Silvercrest is a holding company that was formed in order to carry on the business of Silvercrest L.P., the managing member of our operating subsidiary, and its subsidiaries. Effective on June 26, 2013, Silvercrest became the sole general partner of Silvercrest L.P. and its only material asset is the general partner interest in Silvercrest L.P., represented by 9,653,214 Class A units or approximately 66.8% of the outstanding interests of Silvercrest L.P. Silvercrest controls all of the businesses and affairs of Silvercrest L.P. and, through Silvercrest L.P. and its subsidiaries, continues to conduct the business previously conducted by these entities prior to the reorganization.

Silvercrest L.P., together with its consolidated subsidiaries (collectively “SLP”), provides investment management and family office services to individuals and families and their trusts, and to endowments, foundations and other institutional investors primarily located in the United States of America. The business includes the management of funds of funds and other investment funds, collectively referred to as the “Silvercrest Funds”.

Silvercrest L.P. was formed on December 10, 2008 and commenced operations on January 1, 2009.

On March 11, 2004, Silvercrest Asset Management Group LLC (“SAMG LLC”) acquired 100% of the outstanding shares of James C. Edwards Asset Management, Inc. (“JCE”) and subsequently changed JCE’s name to Silvercrest Financial Services, Inc. (“SFS”). On December 31, 2004, SLP acquired 100% of the outstanding shares of the LongChamp Group, Inc. (now SAM Alternative Solutions, Inc.) (“LGI”). Effective March 31, 2005, SLP entered into an Asset Contribution Agreement with and acquired all of the assets, properties, rights and certain liabilities of Heritage Financial Management, LLC (“HFM”). Effective October 3, 2008, SLP acquired 100% of the outstanding limited liability company interests of Marathon Capital Group, LLC (“MCG”) through a limited liability company interest purchase agreement dated September 22, 2008. On November 1, 2011, SLP acquired certain assets of Milbank Winthrop & Co. (“Milbank”). On April 1, 2012, SLP acquired 100% of the outstanding limited liability company interests of MW Commodity Advisors, LLC (“Commodity Advisors”). On March 28, 2013, SLP acquired certain assets of Ten-Sixty Asset Management, LLC (“Ten-Sixty”). On June 30, 2015, SLP acquired certain assets of Jamison, Eaton & Wood, Inc. (“Jamison”). On January 11, 2016, SLP acquired certain assets of Cappicille & Company, LLC (“Cappicille”). On January 15, 2019, SLP acquired certain assets of Neosho Capital LLC (“Neosho”). On July 1, 2019, SLP acquired substantially all of the assets and assumed certain liabilities of Cortina Asset Management, LLC (“Cortina”). See Notes 3, 7 and 8 for additional information related to the acquisition, goodwill and intangible assets arising from these acquisitions.

Tax Receivable Agreement

In connection with the Company’s initial public offering (the “IPO”) and reorganization of SLP that were completed on June 26, 2013, Silvercrest entered into a tax receivable agreement (the “TRA”) with the partners of SLP (the “SLP Partners”) that requires Silvercrest to pay the SLP Partners 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that Silvercrest actually realizes (or is deemed to realize in the case of an early termination payment by it, or a change in control) as a result of the increases in tax basis and certain other tax benefits related to entering into the TRA, including tax benefits attributable to payments under the TRA or attributable to exchanges of shares of Class B common stock for shares of Class A common stock. The payments to be made pursuant to the tax receivable agreement are a liability of Silvercrest and not Silvercrest L.P. As of September 30, 2021, this liability is estimated to be \$9,513 and is included in deferred tax and other liabilities in the Condensed Consolidated Statements of Financial Condition. Silvercrest expects to benefit from the remaining 15% of cash savings realized, if any.

The TRA was effective upon the consummation of the IPO and will continue until all such tax benefits have been utilized or expired, unless Silvercrest exercises its right to terminate the TRA for an amount based on an agreed upon value of the payments remaining to be made under the agreement. The TRA will automatically terminate with respect to Silvercrest’s obligations to an SLP partner if such SLP partner (i) is terminated for cause, (ii) breaches his or her non-solicitation covenants with Silvercrest or any of its subsidiaries or (iii) voluntarily resigns or retires and competes with Silvercrest or any of its subsidiaries in the 12-month period following resignation of employment or retirement, and no further payments will be made to such partner under the TRA.

For purposes of the TRA, cash savings in income tax will be computed by comparing Silvercrest’s actual income tax liability to the amount of such taxes that it would have been required to pay had there been no increase in its share of the tax basis of the tangible and intangible assets of SLP.

Estimating the amount of payments that Silvercrest may be required to make under the TRA is imprecise by nature, because the actual increase in its share of the tax basis, as well as the amount and timing of any payments under the TRA, will vary depending upon a number of factors, including:

- the timing of exchanges of Silvercrest’s Class B units for shares of Silvercrest’s Class A common stock—for instance, the increase in any tax deductions will vary depending on the fair market value, which may fluctuate over time, of the depreciable and amortizable assets of SLP at the time of the exchanges;
- the price of Silvercrest’s Class A common stock at the time of exchanges of Silvercrest’s Class B units—the increase in Silvercrest’s share of the basis in the assets of SLP, as well as the increase in any tax deductions, will be related to the price of Silvercrest’s Class A common stock at the time of these exchanges;
- the extent to which these exchanges are taxable—if an exchange is not taxable for any reason (for instance, if a principal who holds Silvercrest’s Class B units exchanges units in order to make a charitable contribution), increased deductions will not be available;
- the tax rates in effect at the time Silvercrest utilizes the increased amortization and depreciation deductions; and
- the amount and timing of Silvercrest’s income—Silvercrest will be required to pay 85% of the tax savings, as and when realized, if any. If Silvercrest does not have taxable income, it generally will not be required to make payments under the TRA for that taxable year because no tax savings will have been actually realized.

In addition, the TRA provides that upon certain mergers, asset sales, other forms of business combinations, or other changes of control, Silvercrest’s (or its successors’) obligations with respect to exchanged or acquired Silvercrest Class B units, whether exchanged or acquired before or after such transaction, would be based on certain assumptions, including that Silvercrest would have sufficient taxable income to fully utilize the deductions arising from the increased tax deductions and tax basis and other benefits related to entering into the TRA.

Decisions made by the continuing SLP Partners in the course of running Silvercrest’s business, such as with respect to mergers, asset sales, other forms of business combinations or other changes in control, may influence the timing and amount of payments that are received by an exchanging or selling principal under the TRA. For example, the earlier disposition of assets following an exchange or acquisition transaction will generally accelerate payments under the TRA and increase the present value of such payments, and the disposition of assets before an exchange or acquisition transaction will increase an existing owner’s tax liability without giving rise to any rights of a principal to receive payments under the TRA.

Were the IRS to successfully challenge the tax basis increases described above, Silvercrest would not be reimbursed for any payments previously made under the TRA. As a result, in certain circumstances, Silvercrest could make payments under the TRA in excess of its actual cash savings in income tax.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The accompanying Condensed Consolidated Financial Statements include the accounts of Silvercrest and its wholly owned subsidiaries SLP, SAMG LLC, SFS, MCG, Silvercrest Investors LLC, Silvercrest Investors II LLC and Silvercrest Investors III LLC as of September 30, 2021 and December 31, 2020 and for the three and nine months ended September 30, 2021 and 2020. All intercompany transactions and balances have been eliminated.

The Condensed Consolidated Statement of Financial Condition at December 31, 2020 was derived from the audited Consolidated Statement of Financial Condition at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. The results of operations for the three and nine months ended September 30, 2021 and 2020 are not necessarily indicative of the operating results that may be expected for the full fiscal year ending December 31, 2021 and 2020 or any future period.

The Condensed Consolidated Financial Statements of the Company included herein are unaudited and have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). In the opinion of management, all adjustments, consisting of normal recurring adjustments necessary for a fair presentation of the interim financial position and results, have been made. The Company’s Condensed Consolidated Financial Statements and the related notes should be read together with the Condensed Consolidated Financial Statements and the related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020.

The Company evaluates for consolidation those entities it controls through a majority voting interest or otherwise, including those Silvercrest Funds over which the general partner or equivalent is presumed to have control, e.g. by virtue of the limited partners not being able to remove the general partner. The initial step in determining whether a fund for which SLP is the general partner is required to be consolidated is assessing whether the fund is a variable interest entity (“VIE”) or a voting interest entity (“VoIE”).

SLP then considers whether the fund is a VoIE in which the unaffiliated limited partners have substantive “kick-out” rights that provide the ability to dissolve (liquidate) the limited partnership or otherwise remove the general partner without cause. SLP considers the “kick-out” rights to be substantive if the general partner for the fund can be removed by the vote of a simple majority of the unaffiliated limited partners and there are no significant barriers to the unaffiliated limited partners’ ability to exercise these rights in that among other things, (1) there are no conditions or timing limits on when the rights can be exercised, (2) there are no financial or operational barriers associated with replacing the general partner, (3) there are a number of qualified replacement investment advisors that would accept appointment at the same fee level, (4) each fund’s documents provide for the ability to call and conduct a vote, and (5) the information necessary to exercise the kick-out rights and related vote are available from the fund and its administrator.

If the fund is a VIE, SLP then determines whether it has a variable interest in the fund, and if so, whether SLP is the primary beneficiary. In determining whether SLP is the primary beneficiary, SLP evaluates its control rights as well as economic interests in the entity held either directly or indirectly by SLP. The consolidation analysis can generally be performed qualitatively; however, if it is not readily apparent that SLP is not the primary beneficiary, a quantitative analysis may also be performed. Amendments to the governing documents of the respective Silvercrest Funds could affect an entity’s status as a VIE or the determination of the primary beneficiary. At each reporting date, SLP assesses whether it is the primary beneficiary and will consolidate or deconsolidate accordingly.

During the three and nine months ended September 30, 2021 and 2020, each fund is deemed to be a VoIE and neither SLP nor Silvercrest consolidated any of the Silvercrest Funds.

Non-controlling Interest

As of September 30, 2021, Silvercrest holds approximately 66.8% of the economic interests in SLP. Silvercrest is the sole general partner of SLP and, therefore, controls the management of SLP. As a result, Silvercrest consolidates the financial position and the results of operations of SLP and its subsidiaries, and records a non-controlling interest, as a separate component of equity on its Condensed Consolidated Statements of Financial Condition for the remaining economic interests in SLP. The non-controlling interest in the income or loss of SLP is included in the Condensed Consolidated Statements of Operations as a reduction or addition to net income derived from SLP.

Segment Reporting

The Company views its operations as comprising one operating segment, the investment management industry. Each of the Company’s acquired businesses has similar economic characteristics and has been, or is in the process of becoming, fully integrated. Furthermore, our chief operating decision maker, who is the Company’s Chief Executive Officer, monitors and reviews financial information at a consolidated level for assessing operating results and the allocation of resources.

Use of Estimates

The preparation of the Condensed Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements, and the reported amounts of revenues, expenses and other income reported in the Condensed Consolidated Financial Statements and the accompanying notes. Actual results could differ from those estimates. Significant estimates and assumptions made by management include the fair value of acquired assets and liabilities, determination of equity-based compensation, accounting for income taxes, determination of the useful lives of long-lived assets, and other matters that affect the Condensed Consolidated Financial Statements and related disclosures.

Cash and Cash Equivalents

The Company considers all highly liquid securities with original maturities of 90 days or less when purchased to be cash equivalents.

Equity Method Investments

The Company accounts for investment activities related to entities over which the Company exercises significant influence but do not meet the requirements for consolidation, using the equity method of accounting, whereby the Company records its share of the underlying income or losses of these entities. Intercompany profit arising from transactions with affiliates is eliminated to the extent of its beneficial interest. Equity in losses of equity method investments is not recognized after the carrying value of an investment, including advances and loans, has been reduced to zero, unless guarantees or other funding obligations exist.

The Company evaluates its equity method investments for impairment, whenever events or changes in circumstances indicate that the carrying amounts of such investments may not be recoverable. The difference between the carrying value of the equity method investment and its estimated fair value is recognized as an impairment when the loss in value is deemed other than temporary. The Company's equity method investments approximate their fair value at September 30, 2021 and December 31, 2020. The fair value of the equity method investments is estimated based on the Company's share of the fair value of the net assets of the equity method investee. No impairment charges related to equity method investments were recorded during the three and nine months ended September 30, 2021 or 2020.

Receivables and Due from Silvercrest Funds

Receivables consist primarily of amounts for management and advisory fees, performance fees, and allocations and family office service fees due from clients and are stated as net realizable value. The Company maintains an allowance for doubtful receivables based on estimates of expected losses and specific identification of uncollectible accounts. The Company charges actual losses to the allowance when incurred.

Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements consist primarily of furniture, fixtures and equipment, computer hardware and software and leasehold improvements and are recorded at cost less accumulated depreciation. Depreciation and amortization are calculated using the straight-line method over the assets' estimated useful lives, which for leasehold improvements is the lesser of the lease term or the life of the asset, generally 10 years, and 3 to 7 years for other fixed assets.

Business Combinations

The Company accounts for business combinations using the acquisition method of accounting. The acquisition method of accounting requires that purchase price, including the fair value of contingent consideration, of the acquisition be allocated to the assets acquired and liabilities assumed using the fair values determined by management as of the acquisition date. The method for determining relative fair value varied depending on the type of asset or liability and involved management making significant estimates related to assumptions such as future growth rates used to produce financial projections and the selection of unobservable inputs and other assumptions. The inputs used in establishing the fair value are in most cases unobservable and reflect the Company's own judgments about the assumptions market participants would use in pricing the assets acquired and liabilities assumed. Contingent consideration is recorded as part of the purchase price when such contingent consideration is not based on continuing employment of the selling shareholders. Contingent consideration that is related to continuing employment is recorded as compensation expense. Payments made for contingent consideration recorded as part of an acquisition's purchase price are reflected as financing activities in the Company's Condensed Consolidated Statements of Cash Flows.

The Company remeasures the fair value of contingent consideration at each reporting period using a probability-adjusted discounted cash flow method based on significant inputs not observable in the market and any change in the fair value from either the passage of time or events occurring after the acquisition date, is recorded in earnings. Contingent consideration payments that exceed the acquisition date fair value of the contingent consideration are reflected as an operating activity in the Condensed Consolidated Statements of Cash Flows.

The excess of the purchase price over the fair value of the identifiable assets acquired, including intangibles, and liabilities assumed is recorded as goodwill. The Company generally uses valuation specialists to perform appraisals and assist in the determination of the fair values of the assets acquired and liabilities assumed. These valuations require management to make estimates and assumptions that are critical in determining the fair values of the assets and liabilities. During the measurement period, the Company may record adjustments to the assets acquired and liabilities assumed. Any adjustments to provisional amounts that are identified during the measurement period are recorded in the reporting period in which the adjustment amounts are determined. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

Goodwill and Intangible Assets

Goodwill consists of the excess of the purchase price over the fair value of identifiable net assets of businesses acquired. Goodwill is not amortized but is evaluated for impairment at least annually, on October 1st of each year, or whenever events or circumstances indicate that impairment may have occurred.

The Company accounts for Goodwill under Accounting Standard Codification (“ASC”) No. 350, “Intangibles - Goodwill and Other,” which provides an entity the option to first perform a qualitative assessment of whether a reporting unit’s fair value is more likely than not less than its carrying value, including goodwill. In performing its qualitative assessment, an entity considers the extent to which adverse events or circumstances identified, such as changes in economic conditions, industry and market conditions or entity specific events, could affect the comparison of the reporting unit’s fair value with its carrying amount. If an entity concludes that the fair value of a reporting unit is more likely than not less than its carrying amount, the entity is required to perform the currently prescribed two-step goodwill impairment test to identify potential goodwill impairment and, accordingly, measure the amount, if any, of goodwill impairment loss to be recognized for that reporting unit. The Company utilized this option when performing its annual impairment assessment in 2020 and 2019 and concluded that its single reporting unit’s fair value was more likely than not greater than its carrying value, including goodwill.

The Company has one reporting unit at September 30, 2021 and December 31, 2020. No goodwill impairment charges were recorded during the three and nine months ended September 30, 2021 and 2020.

Intangible assets of the Company are reviewed for impairment whenever events or changes in circumstances indicate that the net carrying amount of the asset may not be recoverable. In connection with such review, the Company also re-evaluates the periods of amortization for these assets. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed their fair value.

Identifiable finite-lived intangible assets are amortized over their estimated useful lives ranging from 3 to 20 years. The method of amortization is based on the pattern over which the economic benefits and generally expected undiscounted cash flows of the intangible asset are consumed. Intangible assets for which no pattern can be reliably determined are amortized using the straight-line method. Intangible assets consist primarily of the contractual right to future management and advisory fees and performance fees and allocations from customer contracts or relationships.

Long-lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the net carrying amount of the asset may not be recoverable. In connection with such review, the Company also reevaluates the periods of depreciation and amortization for these assets. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value.

Treasury Stock

On July 29, 2021, the Company announced that its Board of Directors had approved a share repurchase program authorizing the Company to repurchase up to \$5,000,000 of the Company’s outstanding Class A common stock (the “Repurchase Program”). Repurchases under the Repurchase Program may be made using either cash on hand, borrowings under the Company’s existing credit facilities or other sources, or (a) one or more 10b5-1 share trading plans, to be established with one or more banks or brokers (the “Trading Plans”), (b) pursuant to accelerated share repurchase programs with one or more investment banks or other financial intermediaries (the “ASR Programs”), or (c) through repurchases to be made outside of the Trading Plans or ASR Programs but in compliance with all applicable requirements under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), including the safe harbor provided by Exchange Act Rule 10b-18, and consummated during an open trading window under the Company’s insider trading policy. The program may be amended, suspended, or discontinued at any time and does not commit the Company to repurchase any shares of Common Stock.

As of September 30, 2021, the Company had purchased 27,197 shares of Class A common stock for an aggregate price of approximately \$18.

Treasury stock is accounted for under the cost method and is included as a deduction from equity in the Company's Equity section of the Condensed Consolidated Statement of Financial Condition. Upon any subsequent retirement or resale, the treasury stock account is reduced by the cost of such stock.

Partner Distributions

Partner incentive allocations, which are determined by the general partner, can be formula-based or discretionary. Partner incentive allocations are treated as compensation expense and recognized in the period in which they are earned. In the event there is insufficient distributable cash flow to make incentive distributions, the general partner in its sole and absolute discretion may determine not to make any distributions called for under the partnership agreement. The remaining net income or loss after partner incentive allocations is generally allocated to unit holders based on their pro rata ownership.

Redeemable Partnership Units

If a principal of SLP is terminated for cause, SLP has the right to redeem all of the vested Class B units collectively held by the principal and his or her permitted transferees for a purchase price equal to the lesser of (i) the aggregate capital account balance in SLP of the principal and his or her permitted transferees or (ii) the purchase price paid by the terminated principal to first acquire the Class B units.

SLP also makes distributions to its partners of various nature including incentive payments, profit distributions and tax distributions. The profit distributions and tax distributions are accounted for as equity transactions.

Class A Common Stock

The Company's Class A stockholders are entitled to one vote for each share held of record on all matters submitted to a vote of the Company's stockholders. Class A stockholders are also entitled to receive dividends, when and if declared by the Company's board of directors, out of funds legally available therefor, subject to any statutory or contractual restrictions on the payment of dividends and to any restrictions on the payment of dividends imposed by the terms of any outstanding preferred stock. Dividends consisting of shares of Class A common stock may be paid only as follows: (i) shares of Class A common stock may be paid only to holders of shares of Class A common stock and (ii) shares of Class A common stock will be paid proportionately with respect to each outstanding share of the Company's Class A common stock. Upon the Company's liquidation, dissolution or winding-up, or the sale of all, or substantially all, of the Company's assets, after payment in full of all amounts required to be paid to creditors and to holders of preferred stock having a liquidation preference, if any, the Class A stockholders will be entitled to share ratably in the Company's remaining assets available for distribution to Class A stockholders. Class B units of SLP held by principals will be exchangeable for shares of the Company's Class A common stock, on a one-for-one basis, subject to customary adjustments for share splits, dividends and reclassifications.

Class B Common Stock

Shares of the Company's Class B common stock are issuable only in connection with the issuance of Class B units of SLP. When a vested or unvested Class B unit is issued by SLP, the Company will issue the holder one share of its Class B common stock in exchange for the payment of its par value. Each share of the Company's Class B common stock will be redeemed for its par value and cancelled by the Company if the holder of the corresponding Class B unit exchanges or forfeits its Class B unit pursuant to the terms of the Second Amended and Restated Limited Partnership Agreement of SLP and the terms of the Silvercrest Asset Management Group Inc. 2012 Equity Incentive Plan (the "2012 Equity Incentive Plan"). The Company's Class B stockholders will be entitled to one vote for each share held of record on all matters submitted to a vote of the Company's stockholders. The Company's Class B stockholders will not participate in any dividends declared by the Company's board of directors. Upon the Company's liquidation, dissolution or winding-up, or the sale of all, or substantially all, of its assets, Class B stockholders only will be entitled to receive the par value of the Company's Class B common stock.

Revenue Recognition

The Company generates revenue from management and advisory fees, performance fees and allocations, and family office services fees. Management and advisory fees and performance fees and allocations are generated by managing assets on behalf of separate accounts and acting as investment adviser for various investment funds. Performance fees and allocations also relate to assets managed in external investment strategies in which the Company has a revenue sharing arrangement and in funds in which the Company has no partnership interest. Management and advisory fees and family office services fees income is recognized through the course of the period in which these services are provided. Income from performance fees and allocations is recorded at the conclusion of the contractual performance period when all contingencies are resolved. In certain arrangements, the Company is only entitled to receive performance fees and allocations when the return on assets under management exceeds certain benchmark returns or other performance targets.

The discretionary investment management agreements for the Company's separately managed accounts do not have a specified term. Rather, each agreement may be terminated by either party at any time, unless otherwise agreed with the client, upon written notice of termination to the other party. The investment management agreements for the Company's private funds are generally in effect from year to year, and may be terminated at the end of any year (or, in certain cases, on the anniversary of execution of the agreement) (i) by the Company upon 30 or 90 days' prior written notice and (ii) after receiving the affirmative vote of a simple majority of the investors in the private fund that are not affiliated with the Company, by the private fund on 60 or 90 days' prior written notice. The investment management agreements for the private funds may also generally be terminated effective immediately by either party where the non-terminating party (i) commits a material breach of the terms subject, in certain cases, to a cure period, (ii) is found to have committed fraud, gross negligence or willful misconduct or (iii) terminates, becomes bankrupt, becomes insolvent or dissolves. Each of the Company's investment management agreements contains customary indemnification obligations from the Company to their clients.

The management and advisory fees are primarily driven by the level of the Company's assets under management. The assets under management increase or decrease based on the net inflows or outflows of funds into the Company's various investment strategies and the investment performance of its clients' accounts. In order to increase the Company's assets under management and expand its business, the Company must develop and market investment strategies that suit the investment needs of its target clients and provide attractive returns over the long term. The Company's ability to continue to attract clients will depend on a variety of factors including, among others:

- the ability to educate the Company's target clients about the Company's classic value investment strategies and provide them with exceptional client service;
- the relative investment performance of the Company's investment strategies, as compared to competing products and market indices;
- competitive conditions in the investment management and broader financial services sectors;
- investor sentiment and confidence; and
- the decision to close strategies when the Company deems it to be in the best interests of its clients.

The majority of management and advisory fees that the Company earns on separately managed accounts are based on the value of assets under management on the last day of each calendar quarter. Most of the management and advisory fees are billed quarterly in advance on the first day of each calendar quarter. The Company's basic annual fee schedule for management of clients' assets in separately managed accounts is generally: (i) for managed equity or balanced portfolios, 1% of the first \$10 million and 0.60% on the balance, (ii) for managed fixed income only portfolios, 0.40% on the first \$10 million and 0.30% on the balance, (iii) for the municipal value strategy, 0.65%, (iv) for Cortina equity portfolios, 1.0% on the first \$25 million, 0.90% on the next \$25 million and 0.80% on the balance and (v) for outsourced chief investment officer portfolios, 0.40% on the first \$50 million, 0.32% of the next \$50 million and 0.24% on the balance. The Company's fee for monitoring non-discretionary assets can range from 0.05% to 0.01% but can also be incorporated into an agreed-upon fixed family office service fee. The majority of the Company's clients pay a blended fee rate since they are invested in multiple strategies.

Management fees earned on investment funds that the Company advises are calculated primarily based on the net assets of the funds. Some funds calculate investment fees based on the net assets of the funds as of the last business day of each calendar quarter, whereas other funds calculate investment fees based on the value of net assets on the first business day of the month. Depending on the investment fund, fees are paid either quarterly in advance or quarterly in arrears. For the Company's private fund clients, the fees range from 0.25% to 1.5% annually. Certain management fees earned on investment funds for which the Company performs risk management and due diligence services are based on flat fee agreements customized for each engagement.

The Company's management and advisory fees may fluctuate based on a number of factors, including the following:

- changes in assets under management due to appreciation or depreciation of its investment portfolios, and the levels of the contribution and withdrawal of assets by new and existing clients;
- allocation of assets under management among its investment strategies, which have different fee schedules;
- allocation of assets under management between separately managed accounts and advised funds, for which the Company generally earns lower overall management and advisory fees; and
- the level of their performance with respect to accounts and funds on which the Company is paid incentive fees.

The Company's performance fees and allocations may fluctuate based on performance with respect to accounts and funds on which the Company is paid incentive fees and allocations.

The Company's family office services capabilities enable us to provide comprehensive and integrated services to its clients. The Company's dedicated group of tax and financial planning professionals provide financial planning, tax planning and preparation, partnership accounting and fund administration and consolidated wealth reporting among other services. Family office services income fluctuates based on both the number of clients for whom the Company performs these services and the level of agreed-upon fees, most of which are flat fees. Therefore, non-discretionary assets under management, which are associated with family office services, do not typically serve as the basis for the amount of family office services revenue that is recognized. Family office services fees are also typically billed quarterly in advance at the beginning of the quarter or in arrears after the end of the quarter based on a contractual percentage of the assets managed or upon a contractually agreed-upon flat fee arrangement. Revenue is recognized on a ratable basis over the period in which services are performed.

The Company accounts for performance-based revenue in accordance with ASC 606 by recognizing performance fees and allocations as revenue only when it is certain that the fee income is earned and payable pursuant to the relevant agreements. In certain arrangements, the Company is only entitled to receive performance fees and allocations when the return on assets under management exceeds certain benchmark returns or other performance targets. The Company records performance fees and allocations as a component of revenue once the performance fee or allocation, as applicable, has crystallized. As a result, there is no estimate or variability in the consideration when revenue is recorded.

Equity-Based Compensation

Equity-based compensation cost relating to the issuance of share-based awards to employees is based on the fair value of the award at the date of grant, which is expensed ratably over the requisite service period, net of estimated forfeitures. The forfeiture assumption is ultimately adjusted to the actual forfeiture rate. Therefore, changes in the forfeiture assumptions may affect the timing of the total amount of expense recognized over the vesting period. The service period is the period over which the employee performs the related services, which is normally the same as the vesting period. Equity-based awards that do not require future service are expensed immediately. Equity-based awards that have the potential to be settled in cash at the election of the employee or prior to the reorganization related to redeemable partnership units are classified as liabilities ("Liability Awards") and are adjusted to fair value at the end of each reporting period.

Leases

The Company accounts for leases under ASU No. 2016-02, "Topic 842, Leases" ("ASC 842"), which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. ASC 842 established a right-of-use model ("ROU") that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases are classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the consolidated statement of operations.

Income Taxes

Silvercrest and SFS are subject to federal and state corporate income tax, which requires an asset and liability approach to the financial accounting and reporting of income taxes. SLP is not subject to federal and state income taxes, since all income, gains and losses are passed through to its partners. SLP is, however, subject to New York City unincorporated business tax. With respect to the Company's incorporated entities, the annual tax rate is based on the income, statutory tax rates and tax planning opportunities available in the various jurisdictions in which the Company operates. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Judgment is required in determining the tax expense and in evaluating tax positions. The tax effects of any uncertain tax position ("UTP") taken or expected to be taken in income tax returns are recognized only if it is "more likely-than-not" to be sustained on examination by the taxing authorities, based on its technical merits as of the reporting date. The tax benefits recognized in the Condensed Consolidated Financial Statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. The Company recognizes estimated accrued interest and penalties related to UTPs in income tax expense.

The Company recognizes the benefit of a UTP in the period when it is effectively settled. Previously recognized tax positions are derecognized in the first period in which it is no longer more likely than not that the tax position would be sustained upon examination.

Recent Accounting Developments

In June 2016, the FASB issued ASU 2016-13, "Accounting for Credit Losses" which amends the Board's guidance on the impairment of financial instruments. The ASU adds to U.S. GAAP an impairment model, known as the current expected credit loss ("CECL") model, that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses, which the FASB believes will result in more timely recognition of such losses. This amendment became effective for the Company on January 1, 2020. The adoption of this ASU did not have a material effect on the Company's Condensed Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-15, "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract." The ASU provides guidance for entities to evaluate the accounting for fees paid by a customer in a cloud computing arrangement which includes a software license. ASU 2018-15 became effective for the Company on January 1, 2020. The adoption of this ASU did not have a material effect on the Company's Condensed Consolidated Financial Statements.

In March 2020, the FASB issued ASU 2020-04, "Facilitation of the Effects of Reference Rate Reform on Financial Reporting" which applies to all entities, subject to meeting certain criteria, that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. This ASU is effective for all public entities beginning March 12, 2020 through December 31, 2022. The Company expects the adoption of this guidance will not have a material effect on the Company's Condensed Consolidated Financial Statements.

3. ACQUISITIONS

Cortina:

On April 12, 2019, SAMG LLC and SLP entered into an Asset Purchase Agreement (the "Purchase Agreement") with Cortina Asset Management, LLC, a Wisconsin limited liability company ("Cortina"), and certain interest holders of Cortina (together, the "Principals of Cortina") to acquire, directly or through a designated affiliate, substantially all of the assets of Cortina relating to Cortina's business of providing investment management, investment advisory, and related services (the "Cortina Acquisition").

Subject to the terms and conditions set forth in the Purchase Agreement, SAMG LLC agreed to pay to Cortina an aggregate maximum amount of \$14,937, 80% of which was agreed to be paid in cash at closing by SAMG LLC, and 20% of which was agreed to be paid by SLP in the form of issuance and delivery to certain Principals of Cortina at closing of Class B Units in SLP, in each case subject to certain adjustments as described in the Purchase Agreement.

On July 1, 2019, the acquisition was completed pursuant to the Purchase Agreement. At closing, SAMG LLC paid to Cortina an aggregate principal amount of \$3,577 in cash, and SLP paid an additional \$8,952, in the form of issuance and delivery to certain Principals of Cortina of 662,713 Class B Units in SLP. The \$33,577 paid in cash represented \$35,072 in consideration, partially offset by net closing credits due to SAMG LLC for reimbursable expenses from Cortina.

In addition, the Purchase Agreement provides for up to an additional \$26,209 to be paid 80% in cash with certain Principals of Cortina receiving the remaining 20% in the form of Class B Units of SLP in potential earn-out payments over the next four years. SAMG LLC determined that the preliminary fair value of contingent consideration pursuant to the terms of the Purchase Agreement whereby the sellers of Cortina are potentially entitled to two retention payments and one growth payment contingent upon the achievement of various revenue targets is \$13,800. The estimated fair value of contingent consideration is recognized at the date of acquisition and adjusted for changes in facts and circumstances until the ultimate resolution of the contingency. Changes in the fair value of contingent consideration are reflected as a component of general and administrative expenses in the Condensed Consolidated Statements of Operations. The income approach was used to determine the fair value of these payments, by estimating a range of likely expected outcomes and payouts given these outcomes. The potential payouts were estimated using a Monte Carlo simulation and discounted back to their present values using a risk-free discount rate adjusted to account for SAMG LLC's credit or counterparty risk to arrive at the present value of the contingent consideration payments. The discount rate for the contingent consideration payments was based on the revenue cost of capital for Cortina's revenue.

The first retention payment, due if revenue for the 12-month period from July 1, 2020 to June 30, 2021 is greater than or equal to 95% of the acquired revenue of \$3,027, which represents Cortina's annual revenue run-rate as of closing ("Acquired Revenue"), is equal to \$3,370. If revenue for the period is equal to 75% or less of the Acquired Revenue, there is no first retention payment, and if revenue for the period is between 75% and 95%, the first retention payment will be determined using linear interpolation between \$0 and \$3,370. Cortina's revenue for the 12-month period from July 1, 2020 to June 30, 2021 exceeded 95% of the acquired revenue of \$3,027, therefore, a first retention payment of \$3,370 was due as of June 30, 2021. The first retention payment was paid on July 30, 2021 in the form of \$2,696 in cash and \$674 in equity.

The second retention payment is based on revenue for the 12-month period from July 1, 2021 to June 30, 2022, with a revenue threshold between 85% and 105% of Acquired Revenue and a maximum retention payment of \$5,617. If revenue for the period is equal to 85% or less of the Acquired Revenue, there is no second retention payment, and if revenue for the period is between 85% and 105%, the second retention payment will be determined using linear interpolation between \$0 and \$5,617.

The growth payment is based on revenue for the 12-month period from July 1, 2022 to June 30, 2023, with a revenue threshold between 95% and 140% of Acquired Revenue and a maximum payment of \$17,222. If revenue for the period is equal to 95% or less of the Acquired Revenue, there is no growth payment, and if revenue for the period is between 95% and 140%, the growth payment will be determined using linear interpolation between \$0 and \$17,222.

A fair value adjustment to contingent purchase price consideration of \$670 and \$4,570 was recorded during the three and nine months ended September 30, 2021, respectively, and \$1,700 and (\$500) was recorded during the three and nine months ended September 30, 2020, respectively, and is included in general and administrative expense in the Condensed Consolidated Statement of Operations for the quarters then ended. SAMG LLC has a liability of \$16,300 and \$15,100 as of September 30, 2021 and December 31, 2020, respectively, related to earnout payments to be made in conjunction with the Cortina Acquisition which is included in accounts payable and accrued expenses in the Condensed Consolidated Statements of Financial Condition for contingent consideration.

In connection with their receipt of the equity consideration, the Principals of Cortina became subject to the rights and obligations set forth in the limited partnership agreement of SLP and are entitled to distributions consistent with SLP's distribution policy. In addition, the Principals of Cortina became parties to the exchange agreement between the Company and its principals, which governs the exchange of Class B Units for Class A common stock of the Company (the "Exchange Agreement"), the resale and registration rights agreement between the Company and its principals, which provides the Principals of Cortina with liquidity with respect to shares of Class A common stock of the Company received in exchange for Class B Units (the "Resale and Registration Rights Agreement"), and the TRA of the Company, which entitles the Principals of Cortina to share in a portion of the tax benefit received by the Company upon the exchange of Class B Units for Class A common stock of the Company.

The Purchase Agreement includes customary representations, warranties and covenants.

The strategic acquisition of Cortina, a long-standing innovative and high-caliber growth equity asset management firm, establishes a growth equity capability for the Company. Furthermore, the Company gains investment professionals that have significant experience and knowledge of the industry and establishes a presence in the Midwest.

During the three and nine months ended September 30, 2020, the Company incurred \$5 and \$90, respectively, in costs related to the Cortina Acquisition, and has included these in general, administrative and other in the Condensed Consolidated Statement of Operations.

The Company believes the recorded goodwill is supported by the anticipated revenues and expected synergies of integrating the operations of Cortina into the Company. Most of the goodwill is expected to be deductible for tax purposes.

Neosho:

On December 13, 2018, the Company executed an Asset Purchase Agreement (the "Asset Purchase Agreement") by and among the Company, SLP, SAMG LLC (the "Buyer") and Neosho Capital LLC, a Delaware limited liability company ("Neosho" or the "Seller"), and Christopher K. Richey, Alphonse I. Chan, Robert K. Choi and Vincent G. Pandes, each such individual a principal of Neosho (together, the "Principals of Neosho"), to acquire certain assets of Neosho. The transaction contemplated by the Asset Purchase Agreement closed on January 15, 2019 and is referred to herein as the "Neosho Acquisition".

Pursuant to the terms of the Asset Purchase Agreement, SAMG LLC acquired substantially all of the business and assets of the Seller, a provider of investment management and advisory services, including goodwill and the benefit of the amortization of goodwill related to such assets. In consideration of the purchased assets and goodwill, SAMG LLC paid to the Seller and the Principals of Neosho an aggregate purchase price consisting of (1) a cash payment of \$399 (net of cash acquired) and (2) Class B units of SLP issued to the Principals of Neosho with a value equal to \$20 and an equal number of shares of Class B common stock of the Company, having voting rights but no economic interest. The Company determined that the acquisition-date fair value of the contingent consideration was \$1,686, based on the likelihood that the financial and performance targets described in the Asset Purchase Agreement will be achieved. SAMG LLC will make a payment of \$300 to the Principals of Neosho on the first anniversary of the closing date. SAMG LLC will make earnout payments to the Principals of Neosho as soon as practicable following December 31, 2020, 2021, 2022 and 2023, in an amount equal to the greater of (i) \$100 and (ii) the product obtained by multiplying (x) 50% by (y) the revenue of Neosho as of such payment date less the revenue of Neosho as of the immediately preceding payment date for the prior year. Earnout payments will be paid 75% in cash and 25% in equity. The estimated fair value of contingent consideration is recognized at the date of acquisition and adjusted for changes in facts and circumstances until the ultimate resolution of the

contingency. Changes in the fair value of contingent consideration are reflected as a component of general and administrative expenses in the Condensed Consolidated Statements of Operations. The fair value of the contingent consideration was based on discounted cash flow models using projected revenue for each earnout period. The discount rate applied to the projected revenue was determined based on the weighted average cost of capital for the Company and took into account that the overall risk associated with the payments was similar to the overall risks of the Company as there is no target, floor or cap associated the contingent payments.

The Company has a liability of \$928 and \$1,028 related to earnout payments to be made in conjunction with the Neosho Acquisition which is included in accounts payable and accrued expenses in the Condensed Consolidated Statements of Financial Condition as of September 30, 2021 and December 31, 2020, for contingent consideration. During the nine months ended September 30, 2021 and 2020, the Company made contingent purchase price payments to Neosho of \$100 and \$300, respectively.

4. INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments

Investments include \$53 and \$914 as of September 30, 2021 and December 31, 2020, respectively, representing the Company's interests in the Silvercrest Funds which have been established and managed by the Company and its affiliates. The Company's financial interest in these funds can range in amounts up to 2% of the net assets of the funds. The Company applies the equity method to account for its interests in affiliated investment funds, despite the Company's insignificant financial interest therein, because the Company exercises significant influence over and typically serves as the general partner, managing member, or equivalent of these funds. During 2007, the Silvercrest Funds granted the unaffiliated investors in each respective fund the right, by a simple majority of the fund's unaffiliated investors, without cause, to remove the general partner or equivalent of that fund or to accelerate the liquidation date of that fund in accordance with certain procedures. At September 30, 2021 and December 31, 2020, the Company determined that none of the Silvercrest Funds were required to be consolidated. The Company's involvement with these entities began on the dates that they were formed, which range from July 2003 to July 2014.

Fair Value Measurements

GAAP establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is affected by a number of factors, including the type of investment, the characteristics specific to the investment and the state of the marketplace including the existence and transparency of transactions between market participants. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices in an orderly market generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

- Level I: Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments in Level I include listed equities and listed derivatives.
- Level II: Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in Level II include corporate bonds and loans, less liquid and restricted equity securities, certain over-the-counter derivatives, and certain fund of hedge funds investments in which the Company has the ability to redeem its investment at net asset value at, or within three months of, the reporting date.
- Level III: Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in Level III generally include general and limited partnership interests in private equity and real estate funds, credit-oriented funds, certain over-the-counter derivatives, funds of hedge funds which use net asset value per share to determine fair value in which the Company may not have the ability to redeem its investment at net asset value at, or within three months of, the reporting date, distressed debt and non-investment grade residual interests in securitizations and collateralized debt obligations. Liabilities that are included in Level III generally include contingent consideration related to the acquisition earnouts.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given investment is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

At September 30, 2021 and December 31, 2020, the Company did not have any financial assets or liabilities that are recorded at fair value on a recurring basis, with the exception of the contingent consideration related to the acquisition earnouts.

Contingent Consideration

For business acquisitions, the Company recognizes the fair value of goodwill and other acquired intangible assets, and estimated contingent consideration at the acquisition date as part of purchase price. This fair value measurement is based on unobservable (Level 3) inputs.

The following table represents changes in the fair value of estimated contingent consideration for the year ended December 31, 2020 and the three and nine months ended September 30, 2021:

Balance at January 1, 2020	\$ 15,921
Additions to estimated contingent consideration	—
Payments of contingent consideration	(741)
Non-cash changes in fair value of estimated contingent consideration	1,222
Balance at December 31, 2020	16,402
Additions to estimated contingent consideration	—
Payments of contingent consideration	(114)
Non-cash changes in fair value of estimated contingent consideration	2,300
Balance at March 31, 2021	18,588
Additions to estimated contingent consideration	—
Payments of contingent consideration	(260)
Non-cash changes in fair value of estimated contingent consideration	1,600
Balance at June 30, 2021	\$ 19,928
Additions to estimated contingent consideration	—
Payments of contingent consideration	(3,370)
Non-cash changes in fair value of estimated contingent consideration	670
Balance at September 30, 2021	\$ 17,228

Estimated contingent consideration is included in accounts payable and accrued expenses in the Condensed Consolidated Statements of Financial Condition. Payments of contingent consideration are included in earn-outs paid related to acquisitions in financing activities in the Condensed Consolidated Statements of Cash Flows.

In determining fair value of the estimated contingent consideration, the acquired business' future performance is estimated using financial projections for the acquired business. These financial projections, as well as alternative scenarios of financial performance, are measured against the performance targets specified in each respective acquisition agreement. In addition, discount rates are established based on the cost of debt and the cost of equity. The Company uses the Monte Carlo Simulation Model to determine the fair value of the Company's estimated contingent consideration.

The significant unobservable inputs used in the fair value measurement of the Company's estimated contingent consideration are the forecasted growth rates over the measurement period and discount rates. Significant increases or decreases in the Company's forecasted growth rates over the measurement period or discount rates would result in a higher or lower fair value measurement.

Inputs used in the fair value measurement of estimated contingent consideration at September 30, 2021 and December 31, 2020 are summarized below:

<i>Monte Carlo Simulation Model</i>	September 30, 2021	December 31, 2020	Fair Value Hierarchy
Fair Value	\$ 17,228	\$ 16,402	Level 3
Forecasted growth rate	16.6%	16.4%	
Discount rate	10.1%	11.7%	

Please refer to Note 3. Acquisitions for more details on contingent consideration related to acquisition earnouts.

At September 30, 2021 and December 31, 2020, financial instruments that are not held at fair value are categorized in the table below:

	September 30, 2021		December 31, 2020		Fair Value Hierarchy
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	
<i>Financial Assets:</i>					
Cash and cash equivalents	\$ 65,930	\$ 65,930	\$ 62,498	\$ 62,498	Level 1 (1)
Investments	\$ 53	\$ 53	\$ 914	\$ 914	N/A(2)
<i>Financial liabilities:</i>					
Borrowings under credit facility	\$ 9,900	\$ 9,900	\$ 12,600	\$ 12,600	Level 2 (3)

- (1) Includes \$1,398 and \$1,398 of cash equivalents at September 30, 2021 and December 31, 2020, respectively, that fall under Level 1 in the fair value hierarchy.
- (2) Investments consist of the Company's equity method investments in affiliated investment funds which have been established and managed by the Company and its affiliates. Fair value of investments is based on the net asset value of the affiliated investment funds which is a practical expedient for fair value, which is not included in the fair value hierarchy under GAAP.
- (3) The carrying value of borrowings under the revolving credit agreement approximates fair value, which is determined based on interest rates currently available to the Company for similar debt and the weighted average cost of capital of the Company.

5. RECEIVABLES, NET

The following is a summary of receivables as of September 30, 2021 and December 31, 2020:

	September 30, 2021	December 31, 2020
Management and advisory fees receivable	\$ 3,644	\$ 3,780
Unbilled receivables	6,188	5,107
Other receivables	2	2
Receivables	9,834	8,889
Allowance for doubtful receivables	(448)	(548)
Receivables, net	\$ 9,386	\$ 8,341

6. FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS, NET

The following is a summary of furniture, equipment and leasehold improvements, net as of September 30, 2021 and December 31, 2020:

	September 30, 2021	December 31, 2020
Leasehold improvements	\$ 7,859	\$ 7,936
Furniture and equipment	7,979	7,275
Artwork	505	502
Total cost	16,343	15,713
Accumulated depreciation and amortization	(11,071)	(10,190)
Furniture, equipment and leasehold improvements, net	\$ 5,272	\$ 5,523

Depreciation expense for the three months ended September 30, 2021 and 2020 was \$294 and \$279, respectively. Depreciation expense for the nine months ended September 30, 2021 and 2020 was \$881 and \$838, respectively.

During the three and nine months ended September 30, 2021, the Company wrote off leased assets of \$8 and \$120, with accumulated depreciation of \$31 and \$95, respectively. During the nine months ended September 30, 2020, the Company wrote off leased assets of \$209, with accumulated depreciation of \$180.

7. GOODWILL

The following is a summary of the changes to the carrying amount of goodwill for the nine months ended September 30, 2021 and the year ended December 31, 2020:

	September 30, 2021	December 31, 2020
Beginning		
Gross balance	\$ 81,090	\$ 81,090
Accumulated impairment losses	(17,415)	(17,415)
Net balance	<u>63,675</u>	<u>63,675</u>
Ending		
Gross balance	81,090	81,090
Accumulated impairment losses	(17,415)	(17,415)
Net balance	<u>\$ 63,675</u>	<u>\$ 63,675</u>

8. INTANGIBLE ASSETS, NET

The following is a summary of intangible assets as of September 30, 2021 and December 31, 2020:

	Customer Relationships	Other Intangible Assets	Total
Cost			
Balance, January 1, 2021	\$ 44,060	\$ 2,461	\$ 46,521
Balance, September 30, 2021	<u>44,060</u>	<u>2,461</u>	<u>46,521</u>
Useful lives	10-20 years	3-5 years	
Accumulated amortization			
Balance, January 1, 2021	(17,507)	(2,461)	(19,968)
Amortization expense	(1,971)	—	(1,971)
Balance, September 30, 2021	<u>(19,478)</u>	<u>(2,461)</u>	<u>(21,939)</u>
Net book value	<u>\$ 24,582</u>	<u>\$ —</u>	<u>\$ 24,582</u>
Cost			
Balance, January 1, 2020	\$ 44,060	\$ 2,467	\$ 46,527
Disposal	—	(6)	(6)
Balance, December 31, 2020	<u>44,060</u>	<u>2,461</u>	<u>46,521</u>
Useful lives	10-20 years	3-5 years	
Accumulated amortization			
Balance, January 1, 2020	(14,833)	(2,408)	(17,241)
Amortization expense	(2,674)	(59)	(2,733)
Disposal	—	6	6
Balance, December 31, 2020	<u>(17,507)</u>	<u>(2,461)</u>	<u>(19,968)</u>
Net Book Value	<u>\$ 26,553</u>	<u>\$ —</u>	<u>\$ 26,553</u>

Amortization expense related to intangible assets was \$657 and \$664 for the three months ended September 30, 2021 and 2020, respectively. Amortization expense related to intangible assets was \$1,971 and \$2,069 for the nine months ended September 30, 2021 and 2020, respectively.

During the nine months ended September 30, 2020, the Company wrote off other intangible assets related to a non-compete agreement with one of the principals of Jamison which was no longer in effect at September 30, 2020 with a cost of \$6 and the related accumulated amortization of \$5.

Amortization related to the Company's finite life intangible assets is scheduled to be expensed over the next five years and thereafter as follows:

2021 (remainder of)	\$	658
2022		2,575
2023		2,416
2024		2,289
2025		2,193
Thereafter		14,451
Total	\$	<u>24,582</u>

9. DEBT

Credit Facility

On June 24, 2013, the subsidiaries of Silvercrest L.P. entered into a \$15.0 million credit facility with City National Bank. The subsidiaries of Silvercrest L.P. are the borrowers under such facility and Silvercrest L.P. guarantees the obligations of its subsidiaries under the credit facility. The credit facility is secured by certain assets of Silvercrest L.P. and its subsidiaries. The credit facility consisted of a \$7.5 million delayed draw term loan that was scheduled to mature on June 24, 2025 and a \$7.5 million revolving credit facility that was scheduled to mature on June 21, 2019. On July 1, 2019, the credit facility was amended to increase the term loan by \$18.0 million to \$25.5 million, extend the draw date on the term loan facility to July 1, 2024, extend the maturity date of the term loan to July 1, 2026 and increase the revolving credit facility by \$2.5 million to \$10.0 million. On June 17, 2021, the revolving credit facility was further amended to extend the maturity date to June 18, 2022. The loan bears interest at either (a) the higher of the prime rate plus a margin of 0.25 percentage points and 2.5% or (b) the LIBOR rate plus 2.75 percentage points, at the borrowers' option. Borrowings under the term loan on or prior to June 30, 2021 are payable in 20 equal quarterly installments. Borrowings under the term loan after June 30, 2021 will be payable in equal quarterly installments through the maturity date. The credit facility contains restrictions on, among other things, (i) incurrence of additional debt, (ii) creating liens on certain assets, (iii) making certain investments, (iv) consolidating, merging or otherwise disposing of substantially all of our assets, (v) the sale of certain assets, and (vi) entering into transactions with affiliates. In addition, the credit facility contains certain financial covenants including a test on discretionary assets under management, maximum debt to EBITDA and a fixed charge coverage ratio. The credit facility contains customary events of default, including the occurrence of a change in control which includes a person or group of persons acting together acquiring more than 30% of the total voting securities of Silvercrest. The Company was in compliance with the covenants under the credit facility as of September 30, 2021.

As of September 30, 2021 and December 31, 2020, the Company did not have any outstanding borrowings under the revolving credit facility. As of September 30, 2021 and December 31, 2020, the Company had \$9,900 and \$12,600, respectively, outstanding under the term loan. Accrued but unpaid interest was \$27 and \$0 as of September 30, 2021 and December 31, 2020, respectively.

Interest expense, which also includes amortization of deferred financing fees, incurred on the revolving credit facility and term loan for the three months ended September 30, 2021 and 2020 was \$90 and \$117, respectively. Interest expense, which also includes amortization of deferred financing fees, incurred on the revolving credit facility and term loan for the nine months ended September 30, 2021 and 2020 was \$286 and \$437, respectively.

10. COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Company leases office space pursuant to operating leases that are subject to specific escalation clauses. Rent expense charged to operations for the three months ended September 30, 2021 and 2020 amounted to \$1,621 and \$1,597, respectively. The Company received sub-lease income from sub-tenants during the three months ended September 30, 2021 and 2020 of \$38 and \$38, respectively. Therefore, for the three months ended September 30, 2021 and 2020, net rent expense amounted to \$1,583 and \$1,559, respectively, and is included in general and administrative expenses in the Condensed Consolidated Statements of Operations.

Rent expense charged to operations for the nine months ended September 30, 2021 and 2020 amounted to \$4,840 and \$4,777, respectively. The Company received sub-lease income from sub-tenants during the nine months ended September 30, 2021 and 2020 of \$115 and \$115, respectively. Therefore, for the nine months ended September 30, 2021 and 2020, net rent expense amounted to \$4,725 and \$4,662, respectively, and is included in general and administrative expenses in the Condensed Consolidated Statements of Operations.

As security for performance under the leases, the Company is required to maintain letters of credit in favor of the landlord totaling \$06 as of September 30, 2021 and December 31, 2020. Furthermore, the Company maintains an \$80 letter of credit in favor of its Boston landlord. Both are collateralized by the Company's revolving credit facility with City National Bank.

In March 2014, the Company entered into a lease agreement for additional office space in Richmond, VA. The lease commenced on May 1, 2014 and had an original expiration date of July 31, 2019. The lease is subject to escalation clauses and provides for a rent-free period of three months. Monthly rent expense is \$5. The Company paid a refundable security deposit of \$3. In September 2016, the Company entered into Lease Amendment Number One (“Amendment Number One”) to expand its space and extend its lease. This expansion was to occur on or about October 1, 2017, and the lease was extended to November 30, 2024. The lease was further amended on January 16, 2018 (“Amendment Number Two”) to update the expansion date to January 12, 2018 and to extend the term of the lease to November 30, 2028. The amended lease provides for a rent credit of \$40. Monthly rent expense under the amended lease is \$10.

In June 2015, the Company entered into a lease agreement for office space in Charlottesville, VA. The lease commenced on June 30, 2015 and expired, as amended, on June 30, 2019. On June 6, 2019, the Company extended this lease for three years, with the new term beginning on July 1, 2019 and expiring on June 30, 2022. Monthly rent expense is \$2. The Company paid a refundable security deposit of \$2.

In connection with the acquisition of Jamison Eaton & Wood, Inc. (the “Jamison Acquisition”), the Company assumed lease agreements for office space in Bedminster and Princeton, NJ. The Bedminster lease, as extended, expires on March 31, 2022. Monthly rent expense on the Bedminster lease is \$11. The Bedminster lease is subject to escalation clauses and provides for a rent-free period of four months. The Princeton lease, as extended, expired on April 30, 2016.

In December 2015, the Company extended its lease related to its New York City office space. The amended lease commenced on October 1, 2017 and expires on September 30, 2028. The lease is subject to escalation clauses and provides for a rent-free period of twelve months and for tenant improvements of up to \$2,080. Monthly rent under this extension is \$446.

In January 2016, the Company entered into a lease agreement for office space in Princeton, NJ. The lease commenced April 23, 2016 and expires on August 31, 2022. This lease replaces the Princeton lease discussed above that expired on April 30, 2016. Monthly rent expense on this lease is \$6. The lease is subject to escalation clauses and provides for a rent-free period of five months.

In January 2018, the Company extended its lease related to its Boston, MA office space. The amended lease commenced on January 1, 2018 and expires on April 30, 2023. The lease provides for a rent-free period of one month. Monthly rent under this extension is \$33.

With the Neosho Acquisition, the Company assumed a lease agreement for office space in La Jolla, CA. The lease expired on January 31, 2020. Monthly rent expense was \$3. On November 5, 2019, the Company entered into a lease agreement for office space in San Diego, CA. The lease commenced on February 1, 2020 and expires on June 30, 2025. The lease is subject to escalation clauses and provides for a rent-free period of four months and for tenant improvements of up to \$27. Monthly rent expense under this lease is \$12.

With the Cortina Acquisition, the Company assumed a lease agreement for office space in Milwaukee, WI. The lease was extended on June 17, 2020 and expires December 31, 2022. Monthly rent expense is \$12.

The components of lease expense for the three and nine months ended September 30, 2021 and 2020 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Operating Lease Cost	\$ 1,531	\$ 1,532	\$ 4,603	\$ 4,591
Financing Lease Cost:				
Amortization of ROU assets	30	26	90	89
Interest on lease liabilities	3	3	8	7
Total	33	29	98	96

Future minimum lease payments and rentals under lease agreements for office space are as follows:

	Operating Leases	Non-cancellable Subleases	Operating Lease Liabilities
Remainder of 2021	\$ 1,627	\$ (146)	\$ 1,481
2022	6,377	(35)	6,342
2023	5,928	(6)	5,922
2024	6,008	—	6,008
2025	5,933	—	5,933
Thereafter	16,134	—	16,134
Total	\$ 42,007	\$ (187)	\$ 41,820
Weighted-average remaining lease term – operating leases (months)			81.4
Weighted-average discount rate			4.3%

The Company has finance leases for the following office equipment: (i) a three-year lease agreement for one copier totaling \$11 with monthly minimum payments of \$0.3, which began on March 1, 2018 and continued through January 31, 2021, (ii) a three-year lease agreement for one copier totaling \$13 with monthly minimum payments of \$0.4, which began on March 1, 2019 and continue through February 28, 2022, (iii) a 39-month lease agreement for one copier totaling \$12 with monthly minimum lease payments of \$0.4, which began on March 1, 2019 and continue through May 31, 2022, (iv) a lease agreement for one copier that was assumed as part of the Cortina Acquisition with monthly minimum lease payments of \$1, which began on July 1, 2019 and continue through November 30, 2021, (v) a three year lease agreement for two copiers totaling \$51 with monthly minimum lease payments of \$1, which began on August 1, 2019 and continue through July 31, 2022, (vi) a five year lease agreement for a copier totaling \$82 with monthly minimum lease payments of \$1, which began on May 1, 2020 and continue through April 30, 2025, (vii) a three year lease agreement for a copier totaling \$59 with minimum monthly lease payments of \$2, which began on June 1, 2020 and continue through May 31, 2023, (viii) a three year lease agreement for two copiers totaling \$43 with minimum monthly lease payments of \$1, which began on August 20, 2020 and continue through August 19, 2023, (ix) a three year lease agreement for two copiers totaling \$39 with minimum monthly lease payments of \$1, which began on August 20, 2020 and continue through August 19, 2023, (x) a five year lease agreement for four copiers totaling \$94 with minimum monthly lease payments of \$2, which began on February 1, 2021 and continue through January 31, 2026 and (xi) a three year lease agreement for two copiers totaling \$52 with minimum monthly lease payments of \$1, which begin on July 1, 2021 and continue through June 30, 2024. The aggregate principal balance of finance leases was \$283 and \$259 as of September 30, 2021 and December 31, 2020, respectively.

The assets relating to finance leases that are included in equipment as of September 30, 2021 and December 31, 2020 are as follows:

	September 30, 2021	December 31, 2020
Finance lease assets included in furniture and equipment	\$ 434	\$ 417
Less: Accumulated depreciation and amortization	(158)	(163)
	\$ 276	\$ 254

Depreciation expense relating to finance lease assets was \$30 and \$26 for the three months ended September 30, 2021 and 2020, respectively. Depreciation expense relating to finance lease assets was \$90 and \$88 for the nine months ended September 30, 2021 and 2020, respectively.

During the three and nine months ended September 30, 2021, the Company wrote off leased assets of \$8 and \$120, respectively, with accumulated depreciation of \$31 and \$95, respectively. During the nine months ended September 30, 2020, the Company wrote off leased assets of \$209, with accumulated depreciation of \$180.

Future minimum lease payments under finance leases are as follows:

	Future Minimum Lease Commitments
Remainder of 2021	\$ 37
2022	108
2023	76
2024	43
2025	24
Thereafter	2
Total	\$ 290
Weighted-average remaining lease term – finance leases (months)	35.1
Weighted-average discount rate	3.5 %

11. EQUITY

SLP has historically made, and will continue to make, distributions of its net income to the holders of its partnership units for income tax purposes as required under the terms of its Second Amended and Restated Limited Partnership Agreement and also made, and will continue to make, additional distributions of net income under the terms of its Second Amended and Restated Limited Partnership Agreement. Partnership distributions totaled \$1,471 and \$1,497, for the three months ended September 30, 2021 and 2020, respectively. Partnership distributions totaled \$6,821 and \$6,521, for the nine months ended September 30, 2021 and 2020, respectively.

Pursuant to SLP's Second Amended and Restated Limited Partnership Agreement, partner incentive allocations are treated as distributions of net income. The remaining net income or loss after partner incentive allocations was generally allocated to the partners based on their pro rata ownership. Net income allocation is subject to the recovery of the allocated losses of prior periods. Distributions of partner incentive allocations of net income for the nine months ended September 30, 2021 and 2020 amounted to \$27,819 and \$27,236, respectively. The distributions are included in non-controlling interests in the Condensed Consolidated Statements of Financial Condition and Condensed Consolidated Statement of Changes in Equity for the nine months ended September 30, 2021 and 2020. The Company treats SLP's partner incentive allocations as compensation expense and accrues such amounts when earned. During the three months ended September 30, 2021 and 2020, SLP accrued partner incentive allocations of \$9,196 and \$7,121, respectively. During the nine months ended September 30, 2021 and 2020, SLP accrued partner incentive allocations of \$6,210 and \$20,055, respectively.

Silvercrest—Equity

Silvercrest has the following authorized and outstanding equity:

	Shares at September 30, 2021			Economic Rights
	Authorized	Outstanding	Voting Rights	
Common shares				
Class A, par value \$0.01 per share	50,000,000	9,653,214	1 vote per share (1), (2)	All (1), (2)
Class B, par value \$0.01 per share	25,000,000	4,815,460	1 vote per share (3), (4)	None (3), (4)
Preferred shares				
Preferred stock, par value \$0.01 per share	10,000,000	—	See footnote (5) below	See footnote (5) below

- (1) Each share of Class A common stock is entitled to one vote per share. Class A common stockholders have 100% of the rights of all classes of Silvercrest's capital stock to receive dividends.
- (2) During 2021 and 2020 Silvercrest granted 13,462 and 8,242 restricted stock units, respectively, which will vest and settle in the form of Class A shares of Silvercrest, of which 21,704 remain unvested as of September 30, 2021.
- (3) Each share of Class B common stock is entitled to one vote per share.
- (4) Each Class B unit of SLP held by a principal is exchangeable for one share of the Company's Class A common stock. The principals collectively hold 4,815,460 Class B units, which represent the right to receive their proportionate share of the distributions made by SLP, and 170,854 restricted stock units which will vest and settle in the form of Class B units of SLP. The 170,854 restricted stock units which have been issued to our principals entitle the holders thereof to participate in distributions from SLP as if the underlying Class B units are outstanding and thus are taken into account to determine the economic interest of each holder of units in SLP. However, because the Class B units underlying the restricted stock units have not been issued and are not deemed outstanding, the

holders of restricted stock units have no voting rights with respect to those Class B units. Silvercrest will not issue shares of Class B common stock in respect of restricted stock units of SLP until such time that the underlying Class B units are issued.

- (5) Silvercrest's board of directors has the authority to issue preferred stock in one or more classes or series and to fix the rights, preferences, privileges and related restrictions, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any class or series, or the designation of the class or series, without the approval of its stockholders.

Silvercrest is dependent on cash generated by SLP to fund any dividends. Generally, SLP will distribute its profits to all of its partners, including Silvercrest, based on the proportionate ownership each holds in SLP. Silvercrest will fund dividends to its stockholders from its proportionate share of those distributions after provision for its income taxes and other obligations.

During the three and nine months ended September 30, 2021, Silvercrest issued the following shares:

Class A Common Stock

	<u>Transaction Date</u>	<u># of Shares</u>
Class A common stock outstanding - January 1, 2021		9,650,692
Issuance of Class A common stock upon conversion of Class B units to Class A common stock	March 2021	7,605
Issuance of Class A common stock upon vesting of restricted stock units	May 2021	856
Issuance of Class A common stock upon conversion of Class B units to Class A common stock	May 2021	4,743
Issuance of Class A common stock upon conversion of Class B units to Class A common stock	June 2021	5,864
Issuance of Class A common stock upon conversion of Class B units to Class A common stock	August 2021	10,651
Purchase of shares of Class A common stock of Silvercrest Asset Management Group Inc.	September 2021	<u>(27,197)</u>
Class A common shares outstanding – September 30, 2021		<u>9,653,214</u>

Class B Common Stock

	<u>Transaction Date</u>	<u># of Shares</u>
Class B common stock outstanding - January 1, 2021		4,721,646
Issuance of Class B common stock upon vesting of restricted stock units	January 2021	21,598
Issuance of Class B common stock	January 2021	34,196
Cancellation of Class B common stock upon conversion of Class B units to Class A common stock	March 2021	(7,605)
Cancellation of Class B common stock upon conversion of Class B units to Class A common stock	May 2021	(4,743)
Issuance of Class B common stock upon vesting of restricted stock units	May 2021	20,876
Cancellation of Class B common stock upon conversion of Class B units to Class A common stock	June 2021	(5,864)
Issuance of Class B common stock in connection with the Neosho Acquisition	June 2021	1,740
Issuance of Class B common stock in connection with the Cortina Acquisition	July 2021	44,267
Cancellation of Class B common stock upon conversion of Class B units to Class A common stock	August 2021	<u>(10,651)</u>
Class B common shares outstanding – September 30, 2021		<u>4,815,460</u>

In January 2021, the Company issued 21,598 shares of Class B common stock upon the vesting of restricted stock units.

In January 2021, the Company issued 34,196 shares of Class B common stock to certain principals in connection with their admission to SLP.

In March 2021, the Company redeemed 7,605 shares of Class B common stock from certain existing partners, in connection with the exchange of a like number of Class B units to Class A common stock pursuant to the Resale and Registration Rights Agreement.

In May 2021, the Company redeemed from certain existing partners 4,743 shares of Class B common stock in connection with the exchange of a like number of Class B units to Class A common stock pursuant to the Resale and Registration Rights Agreement.

In May 2021, the Company issued 856 shares of Class A common stock and 20,876 shares of Class B common stock upon the vesting of restricted stock units.

In June 2021, the Company redeemed from certain existing partners 5,864 shares of Class B common stock in connection with the exchange of a like number of Class B units to Class A common stock pursuant to the Resale and Registration Rights Agreement.

In June 2021, in connection with the Neosho Acquisition, the Company issued 1,740 shares of Class B common stock.

In July 2021, in connection with the Cortina Acquisition, the Company issued 44,267 shares of Class B common stock.

In August 2021, the Company redeemed from certain existing partners 10,651 shares of Class B common stock in connection with the exchange of a like number of Class B units to Class A common stock pursuant to the Resale and Registration Rights Agreement.

On July 29, 2021, the Company announced that its Board of Directors had approved a share repurchase program authorizing the Company to repurchase up to \$5,000 of the Company's outstanding Class A common stock (the "Repurchase Program"). Repurchases under the Repurchase Program may be made using either cash on hand, borrowings under the Company's existing credit facilities or other sources, or (a) one or more 10b5-1 share trading plans, to be established with one or more banks or brokers (the "Trading Plans"), (b) pursuant to accelerated share repurchase programs with one or more investment banks or other financial intermediaries (the "ASR Programs"), or (c) through repurchases to be made outside of the Trading Plans or ASR Programs but in compliance with all applicable requirements under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including the safe harbor provided by Exchange Act Rule 10b-18, and consummated during an open trading window under the Company's insider trading policy. The program may be amended, suspended, or discontinued at any time and does not commit the Company to repurchase any shares of Common Stock.

As of September 30, 2021, the Company had purchased 27,197 shares of Class A common stock for an aggregate price of approximately \$418.

Treasury stock is accounted for under the cost method and is included as a deduction from equity in the Company's Equity section of the Condensed Consolidated Statement of Financial Condition. Upon any subsequent retirement or resale, the treasury stock account is reduced by the cost of such stock.

The total amount of shares of Class B common stock outstanding and held by principals equals the number of Class B units those individuals hold in SLP. Shares of Silvercrest's Class B common stock are issuable only in connection with the issuance of Class B units of SLP. When a vested or unvested Class B unit is issued by SLP, Silvercrest will issue to the holder one share of its Class B common stock in exchange for the payment of its par value. Each share of Silvercrest's Class B common stock will be redeemed for its par value and cancelled by Silvercrest if the holder of the corresponding Class B unit exchanges or forfeits its Class B unit pursuant to the terms of the Second Amended and Restated Limited Partnership Agreement of SLP, the terms of the 2012 Equity Incentive Plan of Silvercrest, or otherwise.

12. NOTES RECEIVABLE FROM PARTNERS

Partner contributions to SLP are made in cash, in the form of five or six year interest-bearing promissory notes and/or in the form of nine year interest-bearing limited recourse promissory notes. Certain notes receivable are payable in annual installments and are collateralized by SLP's units that are purchased with the note. Notes receivable from partners are reflected as a reduction of non-controlling interests in the Condensed Consolidated Statements of Financial Condition.

Notes receivable from partners are as follows for the nine months ended September 30, 2021 and the year ended December 31, 2020:

	September 30, 2021	December 31, 2020
Beginning balance	\$ 353	\$ 645
New notes issued to partners	475	—
Repayment of notes	(228)	(300)
Interest accrued and capitalized on notes receivable	4	8
Ending balance	\$ 604	\$ 353

Full recourse notes receivable from partners as of September 30, 2021 and December 31, 2020 are \$604 and \$353, respectively. There were no limited recourse notes receivable from partners as of September 30, 2021 or December 31, 2020. There is no allowance for credit losses on notes receivable from partners as of September 30, 2021 or December 31, 2020.

13. RELATED PARTY TRANSACTIONS

During the first nine months of 2021 and 2020, the Company provided services to the following, which operate as feeder funds investing through master-feeder or mini-master feeder structures:

- the domesticated Silvercrest Hedged Equity Fund, L.P. (formed in 2011 and formerly Silvercrest Hedged Equity Fund);
- Silvercrest Hedged Equity Fund (International), Ltd. (which invests through Silvercrest Hedged Equity Fund, L.P.);
- the domesticated Silvercrest Emerging Markets Fund, L.P. (formed in 2011 and formerly Silvercrest Emerging Markets Fund);
- Silvercrest Market Neutral Fund (currently in liquidation);
- Silvercrest Market Neutral Fund (International) (currently in liquidation);
- Silvercrest Municipal Advantage Master Fund LLC;
- Silvercrest Municipal Advantage Portfolio A LLC;
- Silvercrest Municipal Advantage Portfolio P LLC;
- Silvercrest Municipal Advantage Portfolio S LLC (formed in 2015);
- the Silvercrest Jefferson Fund, L.P. (formed in 2014); and
- the Silvercrest Jefferson Fund, Ltd. (the Company took over as investment manager in 2014, formerly known as the Jefferson Global Growth Fund, Ltd.), which invests in Silvercrest Jefferson Master Fund, L.P. (formed in 2014).

The Company also provides services to the following, which operate and invest separately as stand-alone funds:

- the Silvercrest Global Opportunities Fund, L.P. (currently in liquidation);
- Silvercrest Global Opportunities Fund (International), Ltd. (currently in liquidation);
- Silvercrest Municipal Special Situations Fund LLC (merged into Silvercrest Municipal Advantage Portfolio S LLC in 2015);
- Silvercrest Municipal Special Situations Fund II LLC (merged into Silvercrest Municipal Advantage Portfolio S LLC in 2015);
- Silvercrest International Fund, L.P. (previously known as Silvercrest Global Fund, L.P.);
- Silvercrest Special Situations Fund, L.P.; and
- Silvercrest Commodity Strategies Fund, L.P. (liquidated as of December 31, 2017).

Pursuant to agreements with the above entities, the Company provides investment advisory services and receives an annual management fee of 0% to 1.75% of assets under management and a performance fee or allocation of 0% to 10% of the above entities' net appreciation over a high-water mark.

For the three months ended September 30, 2021 and 2020, the Company earned from the above activities management fee income, which is included in “Management and advisory fees” in the Condensed Consolidated Statements of Operations, of \$1,090 and \$1,165, respectively. For the nine months ended September 30, 2021 and 2020, the Company earned from the above activities management fee income, which is included in “Management and advisory fees” in the Condensed Consolidated Statements of Operations, of \$3,539 and \$3,485, respectively. As of September 30, 2021 and December 31, 2020, the Company was owed \$2,188 and \$1,018, respectively, from its various funds, which is included in Due from Silvercrest Funds on the Condensed Consolidated Statements of Financial Condition.

For the three months ended September 30, 2021 and 2020, the Company earned management and advisory fees of \$463 and \$330, respectively, from assets managed on behalf of certain of its employees. For the nine months ended September 30, 2021 and 2020, the Company earned management and advisory fees of \$1,254 and \$995, respectively, from assets managed on behalf of certain of its employees. As of September 30, 2021 and December 31, 2020, the Company is owed approximately \$90 and \$10, respectively, from certain of its employees, which is included in Receivables, net on the Condensed Consolidated Statements of Financial Condition.

14. INCOME TAXES

As of September 30, 2021, the Company had net deferred tax assets of \$10,976, which is recorded as a deferred tax asset of \$11,100 specific to Silvercrest which consists primarily of assets related to temporary differences between the financial statement and tax bases of intangible assets related to its acquisition of partnership units of SLP, a deferred tax asset of \$82 specific to SLP which consists primarily of assets related to deferred rent expenses offset in part by amounts for differences in the financial statement and tax bases of intangible assets and a deferred tax liability of \$42 related to the corporate activity of SFS which is primarily related to temporary differences between the financial statement and tax bases of intangible assets. Of the total net deferred taxes at September 30, 2021, \$42 of the net deferred tax liabilities relate to non-controlling interests. These amounts are included in prepaid expenses and other assets and deferred tax and other liabilities on the Condensed Consolidated Statement of Financial Condition, respectively.

As of December 31, 2020, the Company had a net deferred tax asset of \$11,305, which is recorded as a net deferred tax asset of \$11,397 specific to Silvercrest, which consists primarily of net assets related to temporary differences between the financial statement and tax bases of intangibles related to its acquisition of partnership units of SLP, a net deferred tax liability of \$37 specific to SLP which consists primarily of liabilities related to differences between the financial statement and tax bases of intangible assets, and a net deferred tax liability of \$55 related to the corporate activity of SFS which is primarily related to temporary differences between the financial statement and tax bases of intangible assets.

The current tax expense was \$1,401 and \$1,576 for the three months ended September 30, 2021 and 2020, respectively. Of the amount for the three months ended September 30, 2021, \$945 relates to Silvercrest’s corporate tax expense, \$455 relates to SLP’s state and local liability and \$0 relates to SFS’s corporate tax expense. The deferred tax expense for the three months ended September 30, 2021 and 2020 was \$378 and (\$217), respectively. When combined with current tax expense, the total income tax provision for the three months ended September 30, 2021 and 2020 is \$1,779 and \$1,359, respectively. The discrete tax expense for the three months ended September 30, 2021 and 2020 was (\$107) and (\$99), respectively. For both 2021 and 2020, the discrete tax expense represents a reduction to tax expense associated with an unfavorable fair value adjustment to contingent purchase price consideration related to earnout payments to be made in conjunction with the Cortina Acquisition.

The current tax expense was \$4,178 and \$2,817 for the nine months ended September 30, 2021 and 2020, respectively. Of the amount for the nine months ended September 30, 2021, \$2,836 relates to Silvercrest’s corporate tax expense, \$1,340 relates to SLP’s state and local liability and \$1 relates to SFS’s corporate tax expense. The deferred tax expense for the nine months ended September 30, 2021 and 2020 was \$452 and \$1,741, respectively. When combined with current tax expense, the total income tax provision for the nine months ended September 30, 2021 and 2020 is \$4,630 and \$4,558, respectively. The discrete tax expense for the nine months ended September 30, 2021 and 2020 was (\$866) and \$197, respectively. For 2021, this represents a reduction to tax expense associated with an unfavorable fair value adjustment to contingent purchase price consideration related to earnout payments to be made in conjunction with the Cortina Acquisition. For 2020, this represents additional tax expense associated with a favorable fair value adjustment to contingent purchase price consideration related to earnout payments to be made in conjunction with the Cortina Acquisition.

The current tax expense increased from the comparable period in 2020 mainly due to increased profitability.

Of the total current tax expense for the three months ended September 30, 2021 and 2020, \$155 and \$212, respectively, relates to non-controlling interests. Of the deferred tax expense for the three months ended September 30, 2021 and 2020, \$30 and (\$56), respectively, relates to non-controlling interests. When combined with current tax expense, the total income tax provision for the three months ended September 30, 2021 and 2020 related to non-controlling interests is \$185 and \$156, respectively.

Of the total current tax expense for the nine months ended September 30, 2021 and 2020, \$152 and \$490, respectively, relates to non-controlling interests. Of the deferred tax expense for the nine months ended September 30, 2021 and 2020, \$10 and \$12, respectively,

relates to non-controlling interests. When combined with current tax expense, the total income tax provision for the nine months ended September 30, 2021 and 2020 related to non-controlling interests is \$462 and \$502, respectively.

In the normal course of business, the Company is subject to examination by federal, state, and local tax regulators. As of September 30, 2021, the Company's U.S. federal income tax returns for the years 2017 through 2021 are open under the normal three-year statute of limitations and therefore subject to examination.

The guidance for accounting for uncertainty in income taxes prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Company does not believe that it has any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next twelve months. Furthermore, the Company does not have any material uncertain tax positions at September 30, 2021 and 2020.

15. REDEEMABLE PARTNERSHIP UNITS

If a principal of SLP is terminated for cause, SLP would have the right to redeem all of the vested Class B units collectively held by the principal and his or her permitted transferees for a purchase price equal to the lesser of (i) the aggregate capital account balance in SLP of the principal and his or her permitted transferees and (ii) the purchase price paid by the terminated principal to first acquire the Class B units.

16. EQUITY-BASED COMPENSATION

Restricted Stock Units and Stock Options

On November 2, 2012, the Company's board of directors adopted the 2012 Equity Incentive Plan.

A total of 1,687,500 shares were originally reserved and available for issuance under the 2012 Equity Incentive Plan. As of September 30, 2021, 1,926,689 shares are available for grant. The equity interests may be issued in the form of shares of the Company's Class A common stock and Class B units of SLP. (All references to units or interests of SLP refer to Class B units of SLP and accompanying shares of Class B common stock of Silvercrest).

The purposes of the 2012 Equity Incentive Plan are to (i) align the long-term financial interests of our employees, directors, consultants and advisers with those of our stockholders; (ii) attract and retain those individuals by providing compensation opportunities that are consistent with our compensation philosophy; and (iii) provide incentives to those individuals who contribute significantly to our long-term performance and growth. To accomplish these purposes, the 2012 Equity Incentive Plan provides for the grant of units of SLP. The 2012 Equity Incentive Plan also provides for the grant of stock options, stock appreciation rights, or SARs, restricted stock awards, restricted stock units, performance-based stock awards and other stock-based awards (collectively, stock awards) based on our Class A common stock. Awards may be granted to employees, including officers, members, limited partners or partners who are engaged in the business of one or more of our subsidiaries, as well as non-employee directors and consultants.

The Compensation Committee may impose vesting conditions and awards may be forfeited if the vesting conditions are not met. During the period that any vesting restrictions apply, unless otherwise determined by the Compensation Committee, the recipient of awards that vest in the form of units of SLP will be eligible to participate in distributions of income from SLP. In addition, before the vesting conditions have been satisfied, the transferability of such units is generally prohibited and such units will not be eligible to be exchanged for cash or shares of our Class A common stock.

In May 2016, the Company granted 3,791 RSUs under the 2012 Equity Incentive Plan at a fair value of \$13.19 per share to existing Class B unit holders. These RSUs vested and settled in the form of Class B units of SLP. Twenty-five percent of the RSUs granted vested and settled on each of the first, second, third and fourth anniversaries of the grant date.

In May 2016, the Company granted 3,000 RSUs under the 2012 Equity Incentive Plan at a fair value of \$13.19 per share to certain members of the Board of Directors. These RSUs vested and settled in the form of Class A shares of Silvercrest. One hundred percent of the RSUs granted vested and settled on the first anniversary of the grant date.

In May 2016, the Company granted 7,582 RSUs under the 2012 Equity Incentive Plan at a fair value of \$13.19 per share to an employee. These RSUs vested and settled in the form of Class A shares of Silvercrest. Twenty-five percent of the RSUs granted vested and settled on each of the first, second, third and fourth anniversaries of the grant date.

In October 2018, the Company granted 105,398 non-qualified stock options ("NQOs") under the 2012 Equity Incentive Plan to an existing Class B unit holder. The fair value of the NQOs has been derived using the Black-Scholes method with the following

assumptions: Strike price of \$13.97, Risk Free rate of 2.94% (5-year treasury rate), expiration of 5 years and volatility of 32.7%. Additionally, the calculation of the compensation expense assumes a forfeiture rate of 1.0%, based on historical experience. These NQOs will vest and become exercisable into of Class B units of SLP. One third of the NQOs will vest and become exercisable on each of the first, second and third anniversaries of the grant date.

In May 2019, the Company granted 60,742 NQOs under the 2012 Equity Incentive Plan to an existing Class B unit holder. The fair value of the NQOs has been derived using the Black-Scholes method with the following assumptions: Strike price of \$14.54, Risk Free rate of 2.32% (5-year treasury rate), expiration of 5 years and volatility of 34.2%. Additionally, the calculation of the compensation expense assumes a forfeiture rate of 1.0%, based on historical experience. These NQOs will vest and become exercisable into of Class B units of SLP. One third of the NQOs will vest and become exercisable on each of the first, second and third anniversaries of the grant date.

In May 2019, the Company granted 34,388 RSUs under the 2012 Equity Incentive Plan at a fair value of \$14.54 per share to an existing Class B unit holder. These RSUs will vest and settle in the form of Class B shares of SLP. Twenty-five percent of the RSUs granted vest and settle on each of the first, second, third and fourth anniversaries of the grant date.

In March 2020, the Company granted 8,242 RSUs under the 2012 Equity Incentive Plan at a fair value of \$11.83 per share to a Board member. These RSUs will vest and settle in the form of Class A shares of Silvercrest. All of the RSUs granted vest on the third anniversary of the grant date.

In May 2020, the Company granted 86,764 NQOs under the 2012 Equity Incentive Plan to an existing Class B unit holder. The fair value of the NQOs has been derived using the Black-Scholes method with the following assumptions: Strike price of \$10.18, Risk Free rate of 0.64% (10-year treasury rate), expiration of 10 years and volatility of 48.0%. Additionally, the calculation of the compensation expense assumes a forfeiture rate of 1.0%, based on historical experience. These NQOs will vest and become exercisable into of Class B units of SLP. One-third of the NQOs will vest and become exercisable on each of the first, second and third anniversaries of the grant date.

In May 2020, the Company granted 49,116 RSUs under the 2012 Equity Incentive Plan at a fair value of \$10.11 per share to an existing Class B unit holder. These RSUs will vest and settle in the form of Class B shares of SLP. Twenty-five percent of the RSUs granted vest and settle on each of the first, second, third and fourth anniversaries of the grant date.

In January 2021, the Company granted 21,598 RSUs under the 2012 Equity Incentive Plan at a fair value of \$13.89 per share to existing Class B unit holders. These RSUs vested and settled immediately in the form of Class B shares of SLP.

In May 2021, the Company granted 116,823 RSUs under the 2012 Equity Incentive Plan at a fair value of \$13.91 per share to existing Class B unit holders. These RSUs will vest and settle in the form of Class B shares of SLP. Twenty-five percent of the RSUs granted vest and settle on each of the first, second, third and fourth anniversaries of the grant date.

In May 2021, the Company granted 856 RSUs under the 2012 Equity Incentive Plan at a fair value of \$14.61 per share to an existing Class A unit holder. These RSUs vested and settled immediately in the form of Class A shares of SLP.

In May 2021, the Company granted 11,635 RSUs under the 2012 Equity Incentive Plan at a fair value of \$14.61 per share to existing Class B unit holders. These RSUs will vest and settle in the form of Class B shares of SLP. One third of the RSUs granted vest and settle on each of the first, second and third anniversaries of the grant date.

In August 2021, the Company granted 1,827 RSUs under the 2012 Equity Incentive Plan at a fair value of \$15.96 per share to an existing Class B unit holder. These RSUs will vest and settle in the form of Class B shares of SLP. The RSUs vest and settle on the third anniversary of the grant date.

For the three months ended September 30, 2021 and 2020, the Company recorded compensation expense related to such RSUs and NQOs of \$44 and \$192, respectively, as part of total compensation expense in the Condensed Consolidated Statements of Operations for the period then ended. For the nine months ended September 30, 2021 and 2020, the Company recorded compensation expense related to such RSUs and NQOs of \$1,107 and \$456, respectively, as part of total compensation expense in the Condensed Consolidated Statements of Operations for the period then ended. As of September 30, 2021 and December 31, 2020, there was \$2,356 and \$1,342, respectively, of unrecognized compensation expense related to unvested awards. As of September 30, 2021 and December 31, 2020, the unrecognized compensation expense related to unvested awards is expected to be recognized over a period of 1.82 and 1.44 years, respectively.

A summary of the RSU grants by the Company as of September 30, 2021 and 2020 is presented below:

	Restricted Stock Units Granted	
	Units	Fair Value per unit
Total granted at January 1, 2021	83,150	\$ 10.18 – 14.54
Granted	152,739	13.89 – 15.96
Vested	(43,330)	10.18 – 14.61
Total granted at September 30, 2021	192,559	\$ 10.18 – 15.96
Total granted at January 1, 2020	37,234	\$ 13.19 – 14.54
Granted	57,358	10.18 – 11.83
Vested	(11,443)	13.19 – 14.54
Total granted at September 30, 2020	83,149	\$ 10.18 – 14.54

A summary of the NQO grants by the Company as of September 30, 2021 and 2020 is presented below:

	Non-Qualified Options Granted	
	Units	Fair Value per unit
Total granted at January 1, 2021	252,904	\$ 10.18 – 14.54
Total granted at September 30, 2021	252,904	\$ 10.18 – 14.54
Total granted at January 1, 2020	166,140	\$ 13.19 – 14.54
Granted	86,764	10.18
Total granted at September 30, 2020	252,904	\$ 10.18 – 14.54

17. DEFINED CONTRIBUTION AND DEFERRED COMPENSATION PLANS

SAMG LLC has a defined contribution 401(k) savings plan (the “Plan”) for all eligible employees who meet the minimum age and service requirements as defined in the Plan. The Plan is designed to be a qualified plan under sections 401(a) and 401(k) of the Internal Revenue Code. For employees who qualify under the terms of the Plan, on an annual basis Silvercrest matches dollar for dollar an employee’s contributions up to the first 4% of compensation. For the three months ended September 30, 2021 and 2020, Silvercrest made matching contributions of \$22 and \$22, respectively, for the benefit of employees. For the nine months ended September 30, 2021 and 2020, Silvercrest made matching contributions of \$65 and \$66, respectively, for the benefit of employees.

18. SOFT DOLLAR ARRANGEMENTS

The Company obtains research and other services through “soft dollar” arrangements. The Company receives credits from broker-dealers whereby technology-based research, market quotation and/or market survey services are effectively paid for in whole or in part by “soft dollar” brokerage arrangements. Section 28(e) of the Securities Exchange Act of 1934, as amended, provides a “safe harbor” to an investment adviser against claims that it breached its fiduciary duty under state or federal law (including ERISA) solely because the adviser caused its clients’ accounts to pay more than the lowest available commission for executing a securities trade in return for brokerage and research services. To rely on the safe harbor offered by Section 28(e), (i) the Company must make a good-faith determination that the amount of commissions is reasonable in relation to the value of the brokerage and research services being received and (ii) the brokerage and research services must provide lawful and appropriate assistance to the Company in carrying out its investment decision-making responsibilities. If the use of soft dollars is limited or prohibited in the future by regulation, the Company may have to bear the costs of such research and other services. For the three months ended September 30, 2021 and 2020, the Company utilized “soft dollar” credits of \$238 and \$263, respectively. For the nine months ended September 30, 2021 and 2020, the Company utilized “soft dollar” credits of \$398 and \$690, respectively.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This report contains forward-looking statements relating to present or future trends or factors that are subject to risks and uncertainties. These risks include, but are not limited to: specific and overall impacts of the coronavirus (COVID-19) pandemic on our financial condition and results of operations; our ability to achieve our business objectives; our ability to successfully achieve the anticipated results of strategic transactions, including the integration of the operations of acquired assets and businesses; the retention and development of clients and other business relationships; disruptions or delays in our business operations, including without limitation disruptions or delays arising from political unrest, war, labor strikes, natural disasters, public health crises such as the coronavirus pandemic, and other events and circumstances beyond our control; our ability to control costs; general economic conditions; fluctuation in operating results; changes in the securities markets; our ability to maintain compliance with the terms of our credit facility; the availability, integration and effective operation of information systems and other technology, and the potential interruption of such systems or technology; risks related to data security of privacy breaches; and other risks detailed from time to time in our filings with the SEC. Our future financial performance could differ materially from the expectations of management contained herein. Additionally, many of these risks and uncertainties are currently elevated by and may or will continue to be elevated by the COVID-19 pandemic. It is not possible to predict or identify all such risks, but may become material in the future. We undertake no obligation to release revisions to these forward-looking statements after the date of this report.

Overview

We are a full-service wealth management firm focused on providing financial advisory and related family office services to ultra-high net worth individuals and institutional investors. In addition to a wide range of investment capabilities, we offer a full suite of complementary and customized family office services for families seeking a comprehensive oversight of their financial affairs. During the three months ended September 30, 2021, our assets under management remained flat at \$31.0 billion. During the nine months ended September 30, 2021, our assets under management increased by 11.5% from \$27.8 billion to \$31.0 billion.

The business includes the management of funds of funds, and other investment funds, collectively referred to as the “Silvercrest Funds.” As of September 30, 2021, Silvercrest L.P. has issued Restricted Stock Units exercisable for 170,854 Class B units which entitle the holders thereof to receive distributions from Silvercrest L.P. to the same extent as if the underlying Class B units were outstanding. Net profits and net losses of Silvercrest L.P. will be allocated, and distributions from Silvercrest L.P. will be made, to its current partners pro rata in accordance with their respective partnership units (and assuming the Class B units underlying all restricted stock units are outstanding).

The historical results of operations discussed in this Management’s Discussion and Analysis of Financial Condition and Results of Operations include those of Silvercrest L.P. and its subsidiaries. As the general partner of Silvercrest L.P., we control its business and affairs and, therefore, consolidate its financial results with ours. The interests of the limited partners’ collective 33.2% partnership interest in Silvercrest L.P. as of September 30, 2021 are reflected in non-controlling interests in our Condensed Consolidated Financial Statements.

COVID-19 Pandemic

The emergence of the coronavirus (COVID-19) around the world, and particularly in the United States, presents significant risks to us, not all of which we are able to fully evaluate or foresee at the current time. While the COVID-19 pandemic did not materially affect our financial results and business operations in the first fiscal quarter ended March 31, 2020, economic and health conditions in the United States and across most of the globe changed rapidly since the end of the first quarter and into the second fiscal quarter ended June 30, 2020. Demand for our services continues despite the current capital markets and overall economic environment. Such current demand may not continue and/or demand may decrease from historical levels depending on the duration and severity of the COVID-19 pandemic, the length of time it takes for normal economic and operating conditions to resume, additional governmental actions that may be taken and/or extensions of time for restrictions that have been imposed to date, and numerous other uncertainties.

The COVID-19 pandemic affected our operations in each of the five quarters during the period April 1, 2020 through September 30, 2021 and may continue to do so indefinitely thereafter. All of these factors may have far reaching impacts on our business, operations, and financial results and conditions, directly and indirectly, including without limitation impacts on the health of our management and employees, client behavior, and on the overall economy. The scope and nature of these impacts, most of which are beyond our control, continue to evolve, and the outcomes of these impacts are uncertain.

Our revenue is highly correlated to securities markets. As a result, we expect that our assets under management and revenue levels will be negatively impacted, on an incremental basis, by the effect of the COVID-19 pandemic on securities markets. The decrease in assets under management for the three months ended March 31, 2020 had an impact on our revenue for the second quarter ended June 30, 2020 because most of our revenue is billed in advance based on the value of assets under management on the last day of the preceding calendar quarter. We continue to fully operate with our management and employees working remotely and we have had business continuity plans in place which we were able to seamlessly activate upon actions taken by various governmental authorities suggesting that businesses recommend that their employees work from home as a result of the pandemic.

Due to the above circumstances and as described generally in this Form 10-Q, management cannot predict the full impact of the COVID-19 pandemic on the Company's earnings and operations nor to economic conditions generally. The ultimate extent of the effects of the COVID-19 pandemic on the Company is highly uncertain and will depend on future developments, and such effects could exist for an extended period of time even after the pandemic might end.

Key Performance Indicators

When we review our performance, we focus on the indicators described below:

(in thousands except as indicated)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenue	\$ 33,461	\$ 27,182	\$ 97,799	\$ 79,568
Income before other income (expense), net	\$ 8,181	\$ 4,949	\$ 21,211	\$ 18,920
Net income	\$ 6,354	\$ 3,480	\$ 16,350	\$ 13,952
Net income margin	19.0%	12.8%	16.7%	17.5%
Net income attributable to Silvercrest	\$ 3,723	\$ 2,059	\$ 9,610	\$ 8,081
Adjusted EBITDA (1)	\$ 10,345	\$ 8,119	\$ 30,430	\$ 22,999
Adjusted EBITDA margin (2)	30.9%	29.9%	31.1%	28.9%
Assets under management at period end (billions)	\$ 31.0	\$ 24.4	\$ 31.0	\$ 24.4
Average assets under management (billions) (3)	\$ 31.0	\$ 24.1	\$ 29.4	\$ 24.8

- (1) EBITDA, a non-GAAP measure of earnings, represents net income before provision for income taxes, interest income, interest expense, depreciation and amortization. We define Adjusted EBITDA as EBITDA without giving effect to items including, but not limited to, professional fees associated with acquisitions or financing transactions, gains on extinguishment of debt or other obligations related to acquisitions, losses on disposals or abandonment of assets and leaseholds, severance and other similar expenses, but including partner incentive allocations, prior to our initial public offering, as an expense. We use this non-GAAP financial measure to assess the strength of our business. These adjustments and the non-GAAP financial measures that are derived from them provide supplemental information to analyze our business from period to period. Investors should consider these non-GAAP financial measures in addition to, and not as a substitute for, financial measures in accordance with GAAP. See "Supplemental Non-GAAP Financial Information" for a reconciliation of non-GAAP financial measures.
- (2) Adjusted EBITDA margin, a non-GAAP measure of earnings, is calculated by dividing Adjusted EBITDA by total revenue.
- (3) We have computed average assets under management by averaging assets under management at the beginning of the applicable period and assets under management at the end of the applicable period.

Revenue

We generate revenue from management and advisory fees, performance fees and allocations, and family office services fees. Our management and advisory fees are generated by managing assets on behalf of separate accounts and acting as investment adviser for various investment funds. Our performance fees and allocations relate to assets managed in external investment strategies in which we have a revenue sharing arrangement and in funds in which we have no partnership interest. Our management and advisory fees and family office services fees income is recognized through the course of the period in which these services are provided. Income from performance fees and allocations is recorded at the conclusion of the contractual performance period when all contingencies are resolved. In certain arrangements, we are only entitled to receive performance fees and allocations when the return on assets under management exceeds certain benchmark returns or other performance targets.

The discretionary investment management agreements for our separately managed accounts do not have a specified term. Rather, each agreement may be terminated by either party at any time, unless otherwise agreed with the client, upon written notice of termination to the other party. The investment management agreements for our private funds are generally in effect from year to year, and may be terminated at the end of any year (or, in certain cases, on the anniversary of execution of the agreement) (i) by us upon 30 or 90 days' prior written notice and (ii) after receiving the affirmative vote of a specified percentage of the investors in the private fund that are not affiliated with us, by the private fund on 60 or 90 days' prior written notice. The investment management agreements for our private funds may also generally be terminated effective immediately by either party where the non-terminating party (i) commits a material breach of the terms subject, in certain cases, to a cure period, (ii) is found to have committed fraud, gross negligence or willful misconduct or (iii) terminates, becomes bankrupt, becomes insolvent or dissolves. Each of our investment management agreements contains customary indemnification obligations from us to our clients. The tables below set forth the amount of assets under management, the percentage of management and advisory fees revenues, the amount of revenue recognized, and the average assets under management for discretionary managed accounts and for private funds for each period presented.

Discretionary Managed Accounts

(in billions)	As of and for the Three Months Ended September 30,		As of and for the Nine Months Ended September 30,	
	2021	2020	2021	2020
	AUM concentrated in Discretionary Managed Accounts	\$ 22.0	\$ 17.5	\$ 22.0
Average AUM For Discretionary Managed Accounts	\$ 22.2	\$ 17.2	\$ 21.1	\$ 17.9
Discretionary Managed Accounts Revenue (in millions)	\$ 31.2	\$ 25.0	\$ 90.9	\$ 73.1
Percentage of management and advisory fees revenue	97%	95%	96%	95%

Private Funds

(in billions)	As of and for the Three Months Ended September 30,		As of and for the Nine Months Ended September 30,	
	2021	2020	2021	2020
	AUM concentrated in Private Funds	\$ 0.5	\$ 0.4	\$ 0.5
Average AUM For Private Funds	\$ 0.5	\$ 0.4	\$ 0.5	\$ 0.5
Private Funds Revenue (in millions)	\$ 1.1	\$ 1.2	\$ 3.5	\$ 3.5
Percentage of management and advisory fees revenue	3%	5%	4%	5%

Our management and advisory fees are primarily driven by the level of our assets under management. Our assets under management increase or decrease based on the net inflows or outflows of funds into our various investment strategies and the investment performance of our clients' accounts. In order to increase our assets under management and expand our business, we must develop and market investment strategies that suit the investment needs of our target clients and provide attractive returns over the long term. Our ability to continue to attract clients will depend on a variety of factors including, among others:

- our ability to educate our target clients about our classic value investment strategies and provide them with exceptional client service;
- the relative investment performance of our investment strategies, as compared to competing products and market indices;
- competitive conditions in the investment management and broader financial services sectors;
- investor sentiment and confidence; and
- our decision to close strategies when we deem it to be in the best interests of our clients.

The majority of management and advisory fees that we earn on separately managed accounts are based on the value of assets under management on the last day of each calendar quarter. Most of our management and advisory fees are billed quarterly in advance on the first day of each calendar quarter. Our basic annual fee schedule for management of clients' assets in separately managed accounts is: (i) for managed equity or balanced portfolios, 1% of the first \$10 million and 0.60% on the balance, (ii) for managed fixed income only portfolios, 0.40% on the first \$10 million and 0.30% on the balance, (iii) for the municipal value strategy, 0.65%, (iv) for Cortina's equity portfolios, 1% on the first \$25 million, 0.90% on the next \$50 million and 0.80% on the balance and (v) for outsourced chief investment officer portfolios, 0.40% on the first \$50 million, 0.32% on the next \$50 million and 0.24% on the balance. Our fee for monitoring non-discretionary assets can range from 0.05% to 0.01%, but can also be incorporated into an agreed-upon fixed family office service fee. The majority of our client relationships pay a blended fee rate since they are invested in multiple strategies.

Management fees earned on investment funds that we advise are calculated primarily based on the net assets of the funds. Some funds calculate investment fees based on the net assets of the funds as of the last business day of each calendar quarter, whereas other funds calculate investment fees based on the value of net assets on the first business day of the month. Depending on the investment fund, fees are paid either quarterly in advance or quarterly in arrears. For our private funds, the fees range from 0.25% to 1.5% annually. Certain management fees earned on investment funds for which we perform risk management and due diligence services are based on flat fee agreements customized for each engagement.

Average annual management fee is calculated by dividing our actual annualized revenue earned over a period by our average assets under management during the same period (which is calculated by averaging quarter-end assets under management for the applicable period). Our average annual management fee was 0.43% and 0.45% for the three months ended September 30, 2021 and 2020, respectively. Our average annual management fee was 0.44% and 0.43% for the nine months ended September 30, 2021 and 2020, respectively. Changes in our total average management fee rates are typically the result of changes in the mix of our assets under management and the concentration in our equities strategies whose fee rates are higher than those of other investment strategies. Management and advisory fees are also adjusted for any cash flows into or out of a portfolio, where the cash flow represents greater than 10% of the previous quarter-end market value of the portfolio. These cash flow-related adjustments were insignificant for the three and nine months ended September 30, 2021 and 2020. Silvercrest L.P. has authority to take fees directly from external custodian accounts of its separately managed accounts.

Our management and advisory fees may fluctuate based on a number of factors, including the following:

- changes in assets under management due to appreciation or depreciation of our investment portfolios, and the levels of the contribution and withdrawal of assets by new and existing clients;
- allocation of assets under management among our investment strategies, which have different fee schedules;
- allocation of assets under management between separately managed accounts and advised funds, for which we generally earn lower overall management and advisory fees; and
- the level of our performance with respect to accounts and funds on which we are paid performance fees and allocations.

Our family office services capabilities enable us to provide comprehensive and integrated services to our clients. Our dedicated group of tax and financial planning professionals provide financial planning, tax planning and preparation, partnership accounting and fund administration and consolidated wealth reporting among other services. Family office services income fluctuates based on both the number of clients for whom we perform these services and the level of agreed-upon fees, most of which are flat fees. Therefore, non-discretionary assets under management, which are associated with family office services, do not typically serve as the basis for the amount of family office services revenue that is recognized.

Expenses

Our expenses consist primarily of compensation and benefits expenses, as well as general and administrative expense including rent, professional services fees, data-related costs and sub-advisory fees. These expenses may fluctuate due to a number of factors, including the following:

- variations in the level of total compensation expense due to, among other things, bonuses, awards of equity to our employees and partners of Silvercrest L.P., changes in our employee count and mix, and competitive factors; and
- the level of management fees from funds that utilize sub-advisors will affect the amount of sub-advisory fees.

Compensation and Benefits Expense

Our largest expense is compensation and benefits, which includes the salaries, bonuses, equity-based compensation and related benefits and payroll costs attributable to our principals and employees. Our compensation methodology is intended to meet the following objectives: (i) support our overall business strategy; (ii) attract, retain and motivate top-tier professionals within the investment management industry; and (iii) align our employees' interests with those of our equity owners. We have experienced, and expect to continue to experience, a general rise in compensation and benefits expense commensurate with growth in headcount and with the need to maintain competitive compensation levels.

The components of our compensation expense for the three and nine months ended September 30, 2021 and 2020 are as follows:

(in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Cash compensation and benefits (1)	\$ 18,414	\$ 14,950	\$ 53,775	\$ 43,761
Non-cash equity-based compensation expense	344	192	1,107	456
Total compensation expense	<u>\$ 18,758</u>	<u>\$ 15,142</u>	<u>\$ 54,882</u>	<u>\$ 44,217</u>

- (1) For the three months ended September 30, 2021 and 2020, \$9,196 and \$7,121, respectively, of partner incentive payments were included in cash compensation and benefits expense in the Condensed Consolidated Statements of Operations. For the nine months ended September 30, 2021 and 2020, \$26,210 and \$20,055, respectively, of partner incentive payments were included in cash compensation and benefits expense in the Condensed Consolidated Statements of Operations.

During 2021 and 2020, Silvercrest L.P. granted restricted stock units ("RSU") to existing Class B unit holders. During 2021 and 2020, Silvercrest L.P. granted non-qualified options ("NQO") to an existing Class B unit holder. Information regarding restricted stock units and stock options can be found in Note 16. "Equity Based Compensation" in the "Notes to Condensed Consolidated Financial Statements" in "Item 1. Financial Statements" of this filing.

General and Administrative Expenses

General and administrative expenses include occupancy-related costs, professional and outside services fees, office expenses, depreciation and amortization, sub-advisory fees and the costs associated with operating and maintaining our research, trading and portfolio accounting systems. Our costs associated with operating and maintaining our research, trading and portfolio accounting systems and professional services expenses generally increase or decrease in relative proportion to the number of employees retained by us and the overall size and scale of our business operations. Sub-advisory fees will fluctuate based on the level of management fees from funds that utilize sub-advisors.

Other Income

Other income is derived primarily from investment income arising from our investments in various private investment funds that were established as part of our investment strategies. We expect the investment components of other income, in the aggregate, to fluctuate based on market conditions and the success of our investment strategies. Performance fees and allocations earned from those investment funds in which we have a partnership interest have been earned over the past few years as a result of the achievement of various high-water marks depending on the investment fund. These performance fees and allocations are recorded based on the equity method of accounting. The majority of our performance fees and allocations over the past few years have been earned from our fixed income-related funds.

Non-Controlling Interests

We are the general partner of Silvercrest L.P. and control its business and affairs and, therefore, consolidate its financial results with ours. In light of the limited partners' interest in Silvercrest L.P., we reflect their partnership interests as non-controlling interests in our Condensed Consolidated Financial Statements.

Provision for Income Tax

We are subject to taxes applicable to C-corporations. Our effective tax rate, and the absolute dollar amount of our tax expense will be offset by the benefits of the tax receivable agreement entered into with our Class B stockholders.

Acquisitions

On April 12, 2019, we entered into an Asset Purchase Agreement (the “Purchase Agreement”) with Cortina Asset Management, LLC, a Wisconsin limited liability company (“Cortina”), and certain interest holders of Cortina (the “Principals of Cortina”) to acquire, directly or through a designated affiliate, substantially all of the assets of Cortina relating to Cortina’s business of providing investment management, investment advisory, and related services.

Subject to the terms and conditions set forth in the Purchase Agreement, we agreed to pay to Cortina an aggregate maximum amount of \$44.9 million, 80% of which was agreed to be paid in cash at closing by us, and 20% of which was agreed to be paid by us in the form of issuance and delivery to certain Principals of Cortina at closing of Class B Units in Silvercrest L.P., in each case subject to certain adjustments as described in the Purchase Agreement. In addition, the Purchase Agreement provides for up to an additional \$26.2 million to be paid 80% in cash with certain Principals of Cortina receiving the remaining 20% in the form of Class B Units of Silvercrest L.P. in potential earn-out payments over the next four years.

On July 1, 2019, the acquisition was completed pursuant to the Purchase Agreement. At closing, the Company paid to Cortina an aggregate principal amount of \$33.6 million in cash, and Silvercrest L.P. paid an additional \$9.0 million in the form of issuance and delivery to certain Principals of Cortina of 662,713 Class B Units in Silvercrest L.P. Of the \$33.6 million paid in cash, \$35.1 million represented consideration, partially offset by net closing credits due to the Company for reimbursable expenses from Cortina.

In addition, the Purchase Agreement provides for up to an additional \$26.2 million to be paid 80% in cash with certain Principals of Cortina receiving the remaining 20% in the form of Class B Units of Silvercrest L.P. in potential earn-out payments over the next four years.

The foregoing description of the Purchase Agreement is only a summary, does not purport to be complete, and is qualified in its entirety by reference to the full text of the Purchase Agreement, which is attached as Exhibit 2.1 to the Form 8-K filed by Silvercrest on April 15, 2019.

On December 13, 2018, we executed an Asset Purchase Agreement (the “Neosho Asset Purchase Agreement”) by and among the Company, Silvercrest L.P. (“SLP”), Silvercrest Asset Management Group LLC (“SAMG LLC”) and Neosho Capital LLC (“Neosho” or the “Seller”), and Christopher K. Richey, Alphonse I. Chan, Robert K. Choi and Vincent G. Pandes, each such individual a principal of Neosho, to acquire certain assets of Neosho. The transaction contemplated by the Neosho Asset Purchase Agreement closed on January 15, 2019 and is referred to herein as the “Neosho Acquisition”.

Information regarding the Cortina and Neosho Acquisitions can be found in Note 3. “Acquisitions” in the “Notes to Condensed Consolidated Financial Statements” in “Item 1. Financial Statements” of this filing.

Operating Results

Revenue

Our revenues for the three and nine months ended September 30, 2021 and 2020 are set forth below:

(in thousands)	For the Three Months Ended September 30,			
	2021	2020	2021 vs. 2020 (\$)	2021 vs. 2020 (%)
Management and advisory fees	\$ 32,248	\$ 26,148	\$ 6,100	23.3%
Performance fees	86	—	86	100.0%
Family office services	1,127	1,034	93	9.0%
Total revenue	<u>\$ 33,461</u>	<u>\$ 27,182</u>	<u>\$ 6,279</u>	23.1%

(in thousands)	For the Nine Months Ended September 30,			
	2021	2020	2021 vs. 2020 (\$)	2021 vs. 2020 (%)
Management and advisory fees	\$ 94,435	\$ 76,554	\$ 17,881	23.4%
Performance fees	86	—	86	100.0%
Family office services	3,278	3,014	264	8.8%
Total revenue	<u>\$ 97,799</u>	<u>\$ 79,568</u>	<u>\$ 18,231</u>	22.9%

The growth in our assets under management during the three and nine months ended September 30, 2021 and 2020 is described below:

(in billions)	Assets Under Management		
	Discretionary	Non-Discretionary	Total
As of June 30, 2020	\$ 17.3	\$ 6.5	\$ 23.8
Gross client inflows	0.8	0.1	0.9
Gross client outflows	(0.9)	(0.1)	(1.0)
Net client flows	(0.1)	—	(0.1)
Market appreciation	0.7	—	0.7
As of September 30, 2020	<u>\$ 17.9</u>	<u>\$ 6.5</u>	<u>\$ 24.4</u> (1)
As of June 30, 2021	\$ 22.9	\$ 8.1	\$ 31.0
Gross client inflows	1.1	0.1	1.2
Gross client outflows	(1.3)	(0.1)	(1.4)
Net client flows	(0.2)	—	(0.2)
Market (depreciation)/appreciation	(0.2)	0.4	0.2
As of September 30, 2021	<u>\$ 22.5</u>	<u>\$ 8.5</u>	<u>\$ 31.0</u> (1)
As of January 1, 2020	\$ 18.8	\$ 6.3	\$ 25.1
Gross client inflows	2.6	0.3	2.9
Gross client outflows	(2.4)	(0.2)	(2.6)
Net client flows	0.2	0.1	0.3
Market (depreciation)/appreciation	(1.1)	0.1	(1.0)
As of September 30, 2020	<u>\$ 17.9</u>	<u>\$ 6.5</u>	<u>\$ 24.4</u> (1)
As of January 1, 2021	\$ 20.6	\$ 7.2	\$ 27.8
Gross client inflows	3.6	0.4	4.0
Gross client outflows	(4.2)	(0.4)	(4.6)
Net client flows	(0.6)	—	(0.6)
Market appreciation	2.5	1.3	3.8
As of September 30, 2021	<u>\$ 22.5</u>	<u>\$ 8.5</u>	<u>\$ 31.0</u> (1)

(1) Less than 5% of assets under management generate performance fees or allocations.

The following chart summarizes the performance^{1, 2} of each of our principal equity strategies relative to their appropriate benchmarks since inception:

PROPRIETARY EQUITY PERFORMANCE

as of September 30, 2021

	ANNUALIZED PERFORMANCE					
	INCEPTION	1-YEAR	3-YEAR	5-YEAR	7-YEAR	INCEPTION
Large Cap Value Composite	4/1/02	31.5	12.7	14.9	13.2	9.9
Russell 1000 Value Index		35.0	10.1	10.9	9.3	7.9
Small Cap Value Composite	4/1/02	51.1	8.6	10.7	11.1	11.0
Russell 2000 Value Index		63.9	8.6	11.0	10.2	8.7
Smid Cap Value Composite	10/1/05	49.3	9.0	12.1	12.1	10.5
Russell 2500 Value Index		54.4	8.9	10.5	9.5	8.3
Multi Cap Value Composite	7/1/02	36.6	11.6	13.5	12.3	10.4
Russell 3000 Value Index		36.6	9.9	10.9	9.4	8.6
Equity Income Composite	12/1/03	31.6	8.4	11.5	11.3	11.7
Russell 3000 Value Index		36.6	9.9	10.9	9.4	8.7
Focused Value Composite	9/1/04	28.8	7.8	10.7	10.7	10.8
Russell 3000 Value Index		36.6	9.9	10.9	9.4	8.5
Small Cap Opportunity Composite	7/1/04	48.1	12.4	16.4	14.9	12.3
Russell 2000 Index		47.7	10.5	13.5	11.9	9.4
Small Cap Growth Composite	7/1/04	60.8	21.7	24.1	19.4	13.3
Russell 2000 Growth Index		33.3	11.7	15.3	13.2	10.2
Smid Cap Growth Composite	1/1/06	50.3	28.6	27.5	20.5	14.1
Russell 2500 Growth Index		32.0	16.0	18.2	14.9	11.5

1 Returns are based upon a time weighted rate of return of various fully discretionary equity portfolios with similar investment objectives, strategies and policies and other relevant criteria managed by SAMG LLC, a subsidiary of Silvercrest. Performance results are gross of fees and net of commission charges. An investor's actual return will be reduced by the management and advisory fees and any other expenses it may incur in the management of the investment advisory account. SAMG LLC's standard management and advisory fees are described in Part 2 of its Form ADV. Actual fees and expenses will vary depending on a variety of factors, including the size of a particular account. Returns greater than one year are shown as annualized compounded returns and include gains and accrued income and reinvestment of distributions. Past performance is no guarantee of future results. This report contains no recommendations to buy or sell securities or a solicitation of an offer to buy or sell securities or investment services or adopt any investment position. This report is not intended to constitute investment advice and is based upon conditions in place during the period noted. Market and economic views are subject to change without notice and may be untimely when presented here. Readers are advised not to infer or assume that any securities, sectors or markets described were or will be profitable. SAMG LLC is an independent investment advisory and financial services firm created to meet the investment and administrative needs of individuals with substantial assets and select institutional investors. SAMG LLC claims compliance with the Global Investment Performance Standards (GIPS®).

2 The market indices used to compare to the performance of our strategies are as follows:

The Russell 1000 Index is a capitalization-weighted, unmanaged index that measures the 1000 largest companies in the Russell 3000. The Russell 1000 Value Index is a capitalization-weighted, unmanaged index that includes those Russell 1000 Index companies with lower price-to-book ratios and lower expected growth values.

The Russell 2000 Index is a capitalization-weighted, unmanaged index that measures the 2000 smallest companies in the Russell 3000. The Russell 2000 Value Index is a capitalization-weighted, unmanaged index that includes those Russell 2000 Index companies with lower price-to-book ratios and lower expected growth values. The Russell 2000 Growth Index is a capitalization-weighted, unmanaged index that includes those Russell 2000 Index companies with higher price-to-book ratios and higher forecasted growth.

The Russell 2500 Index is a capitalization-weighted, unmanaged index that measures the 2500 smallest companies in the Russell 3000. The Russell 2500 Value Index is a capitalization-weighted, unmanaged index that includes those Russell 2000 Index companies with lower price-to-book ratios and lower expected growth values. The Russell 2500 Growth Index is a capitalization-weighted, unmanaged index that includes those Russell 2500 Index companies with higher price-to-book ratios and higher forecasted growth.

The Russell 3000 Value Index is a capitalization-weighted, unmanaged index that measures those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth.

Three Months Ended September 30, 2021 versus Three Months Ended September 30, 2020

Our total revenue increased by \$6.3 million, or 23.1%, to \$33.5 million for the three months ended September 30, 2021, from \$27.2 million for the three months ended September 30, 2020. This increase was driven by market appreciation in discretionary assets under management, partially offset by net client outflows.

Total assets under management increased by \$6.6 billion, or 27.0%, to \$31.0 billion at September 30, 2021 from \$24.4 billion at September 30, 2020. Compared to the three months ended September 30, 2020, there was an increase of \$0.3 billion in client inflows, partially offset by a decrease in market appreciation of \$0.5 billion and an increase of \$0.4 billion in client outflows. During the three months ended September 30, 2021, from June 30, 2021, there was a decrease of \$0.4 billion in discretionary assets under management and an increase of \$0.4 billion in non-discretionary assets under management. The increase in assets under management as of September 30, 2021 as compared to June 30, 2021 was primarily due to market appreciation during the quarter ended September 30, 2021, partially offset by net client outflows. Sub-advised fund management revenue decreased by \$0.2 million for the three months ended September 30, 2021 as compared to the same period in the prior year. Proprietary fund management revenue increased by \$0.1 million for the three months ended September 30, 2021 as compared to the same period in the prior year. With respect to our discretionary assets under management, equity assets experienced a decrease of 2.6% during the three months ended September 30, 2021 and fixed income assets increased by 0.5% during the same period. For the three months ended September 30, 2021, most of the decrease in equity assets came from our small cap concentrated, international small cap value and emerging markets ADR strategies with composite returns of (3.30%), (2.79%) and (2.75%), respectively. As of September 30, 2021, the composition of our assets under management was 73% in discretionary assets, which includes both separately managed accounts and proprietary and sub-advised funds, and 27% in non-discretionary assets which represent assets on which we provide portfolio reporting but do not have investment discretion.

The following table represents a further breakdown of our assets under management as of the three months ended September 30, 2021 and 2020:

	Three Months Ended September 30,	
	2021	2020
Total AUM as of June 30,	\$ 31.0	\$ 23.8
Discretionary AUM:		
Total Discretionary AUM as of June 30,	22.9	17.3
New client accounts/assets (1)	0.1	0.1
Closed accounts (2)	(0.1)	—
Net cash inflow/(outflow) (3)	(0.2)	(0.2)
Non-discretionary to Discretionary AUM (4)	—	—
Market (depreciation)/appreciation	(0.2)	0.7
Change to Discretionary AUM	(0.4)	0.6
Total Discretionary AUM at September 30,	22.5	17.9
Change to Non-Discretionary AUM (5)	0.4	—
Total AUM as of September 30,	\$ 31.0	\$ 24.4

- (1) Represents new account flows from both new and existing client relationships.
- (2) Represents closed accounts of existing client relationships and those that terminated.
- (3) Represents periodic cash flows related to existing accounts.
- (4) Represents client assets that converted to Discretionary AUM from Non-Discretionary AUM.
- (5) Represents the net change to Non-Discretionary AUM.

Nine Months Ended September 30, 2021 versus Nine Months Ended September 30, 2020

Our total revenue increased by \$18.2 million, or 22.9%, to \$97.8 million for the nine months ended September 30, 2021, from \$79.6 million for the nine months ended September 30, 2020. This increase was driven by market appreciation in assets under management, partially offset by net client outflows.

Total assets under management increased by \$6.6 billion, or 27.0%, to \$31.0 billion at September 30, 2021 from \$24.4 billion at September 30, 2020. Compared to the nine months ended September 30, 2020, there was an increase in market appreciation of \$4.8 billion and an increase of \$1.1 billion in client inflows, partially offset by an increase of \$2.0 billion in client outflows. During the nine months ended September 30, 2021, from December 31, 2020, there was an increase of \$1.9 billion in discretionary assets under management and an increase of \$1.3 billion in non-discretionary assets under management. The increase in assets under management

as of September 30, 2021 as compared to December 31, 2020 was primarily due to market appreciation during the period. Sub-advised fund management revenue decreased by \$0.1 million for the nine months ended September 30, 2021 as compared to the same period in the prior year. Proprietary fund management revenue increased by \$0.1 million for the nine months ended September 30, 2021 as compared to the same period in the prior year. With respect to our discretionary assets under management, equity assets experienced an increase of 10.0% during the nine months ended September 30, 2021 and fixed income assets increased by 8.7% during the same period. For the nine months ended September 30, 2021, most of the increase in equity assets came from our energy infrastructure, REIT and small cap growth strategies with composite returns of 33.80%, 22.50% and 20.73%, respectively. As of September 30, 2021, the composition of our assets under management was 73% in discretionary assets, which includes both separately managed accounts and proprietary and sub-advised funds, and 27% in non-discretionary assets which represent assets on which we provide portfolio reporting but do not have investment discretion.

The following table represents a further breakdown of our assets under management as of the nine months ended September 30, 2021 and 2020:

	Nine Months Ended September 30,	
	2021	2020
Total AUM as of January 1,	\$ 27.8	\$ 25.1
Discretionary AUM:		
Total Discretionary AUM as of January 1,	20.6	18.8
New client accounts/assets (1)	0.3	0.5
Closed accounts (2)	(0.4)	(0.2)
Net cash inflow/(outflow) (3)	(0.5)	0.1
Non-discretionary to Discretionary AUM (4)	—	—
Market appreciation/(depreciation)	2.5	(1.1)
Change to Discretionary AUM	1.9	(0.9)
Total Discretionary AUM at September 30,	<u>22.5</u>	<u>17.9</u>
Change to Non-Discretionary AUM (5)	1.3	0.2
Total AUM as of September 30,	\$ 31.0	\$ 24.4

- (2) Represents new account flows from both new and existing client relationships.
- (2) Represents closed accounts of existing client relationships and those that terminated.
- (3) Represents periodic cash flows related to existing accounts.
- (4) Represents client assets that converted to Discretionary AUM from Non-Discretionary AUM.
- (5) Represents the net change to Non-Discretionary AUM.

Expenses

Our expenses for the three and nine months ended September 30, 2021 and 2020 are set forth below:

(in thousands)	For the Three Months Ended September 30,			
	2021	2020	2021 vs. 2020 (\$)	2021 vs. 2020 (%)
Compensation and benefits (1)	\$ 18,758	\$ 15,142	\$ 3,616	23.9%
General, administrative and other	6,522	7,091	(569)	(8.0)%
Total expenses	<u>\$ 25,280</u>	<u>\$ 22,233</u>	<u>\$ 3,047</u>	13.7%

(in thousands)	For the Nine Months Ended September 30,			
	2021	2020	2021 vs. 2020 (\$)	2021 vs. 2020 (%)
Compensation and benefits (1)	\$ 54,882	\$ 44,217	\$ 10,665	24.1%
General, administrative and other	21,706	16,431	5,275	32.1%
Total expenses	<u>\$ 76,588</u>	<u>\$ 60,648</u>	<u>\$ 15,940</u>	26.3%

- (1) For the three months ended September 30, 2021 and 2020, \$9,196 and \$7,121, respectively, of partner incentive payments were included in cash compensation and benefits expense in the Condensed Consolidated Statements of Operations. For the nine months ended September 30, 2021 and 2020, \$26,210 and \$20,055, respectively, of partner incentive payments were included in cash compensation and benefits expense in the Condensed Consolidated Statements of Operations.

Our expenses are driven primarily by our compensation costs. The table included in “—Expenses—Compensation and Benefits Expense” describes the components of our compensation expense for the three and nine months ended September 30, 2021 and 2020. Other expenses, such as rent, professional service fees, data-related costs, and sub-advisory fees incurred are included in our general and administrative expenses in the Condensed Consolidated Statements of Operations.

Three Months Ended September 30, 2021 versus Three Months Ended September 30, 2020

Total expenses increased by \$3.0 million, or 13.7%, to \$25.3 million for the three months ended September 30, 2021 from \$22.2 million for the three months ended September 30, 2020. This increase was attributable to an increase in compensation and benefits expense of \$3.6 million, partially offset by a decrease in general, administrative and other expenses of \$0.6 million.

Compensation and benefits expense increased by \$3.6 million, or 23.9%, to \$18.8 million for the three months ended September 30, 2021 from \$15.2 million for the three months ended September 30, 2020. The increase was primarily attributable to an increase in the accrual for bonuses of \$3.0 million, an increase in salaries and benefits of \$0.4 million primarily as a result of merit-based increases, newly hired staff, and an increase in equity-based compensation expense of \$0.2 million due to an increase in the number of vested and unvested restricted stock units and unvested non-qualified stock options outstanding.

General and administrative expenses decreased by \$0.6 million, or 8.0%, to \$6.5 million for the three months ended September 30, 2021 from \$7.1 million for the three months ended September 30, 2020. This was primarily attributable to a decrease in the adjustment to the fair value of contingent consideration related to the Cortina Acquisition of \$1.0 million and a decrease in occupancy and related costs of \$0.1 million primarily due to a decrease in cleaning and maintenance costs, partially offset by an increase in professional fees of \$0.1 million, an increase in portfolio and systems expense of \$0.2 and an increase depreciation and amortization expense of \$0.1 million.

Nine Months Ended September 30, 2021 versus Nine Months Ended September 30, 2020

Total expenses increased by \$16.0 million, or 26.3%, to \$76.6 million for the nine months ended September 30, 2021 from \$60.6 million for the nine months ended September 30, 2020. This increase was attributable to increases in compensation and benefits expense and general, administrative and other expenses of \$10.7 million and \$5.3 million, respectively.

Compensation and benefits expense increased by \$10.7 million, or 24.1%, to \$54.9 million for the nine months ended September 30, 2021 from \$44.2 million for the nine months ended September 30, 2020. The increase was primarily attributable to an increase in the accrual for bonuses of \$8.8 million, an increase in salaries and benefits of \$1.1 million primarily as a result of merit-based increases and newly hired staff and an increase in equity-based compensation expense of \$0.7 million due to an increase in the number of vested and unvested restricted stock units and unvested non-qualified stock options outstanding.

General and administrative expenses increased by \$5.3 million, or 32.1%, to \$21.7 million for the nine months ended September 30, 2021 from \$16.4 million for the nine months ended September 30, 2020. This was primarily attributable to an increase in the adjustment to the fair value of contingent consideration related to the Cortina Acquisition of \$5.1 million, an increase in trade errors of \$0.3 million, an increase in professional fees of \$0.1 million, an increase in sub-advisory and referral fees of \$0.1 million and an increase in insurance expense of \$0.1 million partially offset by a decrease in travel and entertainment expenses of \$0.2 million as a result of the coronavirus pandemic, a decrease in portfolio and systems expense of \$0.1 million and a decrease in depreciation and amortization of \$0.1 million.

Other Income (Expense), Net

(in thousands)	For the Three Months Ended September 30,			
	2021	2020	2021 vs. 2020 (\$)	2021 vs. 2020 (%)
Other income (expense), net	\$ 43	\$ 8	\$ 35	NM
Interest income	1	2	(1)	(50.0)%
Interest expense	(92)	(120)	28	23.3%
Total other income (expense), net	<u>\$ (48)</u>	<u>\$ (110)</u>	<u>\$ 62</u>	56.4%

(in thousands)	For the Nine Months Ended September 30,			
	2021	2020	2021 vs. 2020 (\$)	2021 vs. 2020 (%)
Other income (expense), net	\$ 58	\$ 23	\$ 35	NM
Interest income	5	12	(7)	(58.3)%
Interest expense	(294)	(445)	151	33.9%
Total other income (expense), net	<u>\$ (231)</u>	<u>\$ (410)</u>	<u>\$ 179</u>	43.7%

NM – Not Meaningful

Three Months Ended September 30, 2021 versus Three Months Ended September 30, 2020

Total other income (expense) net increased by \$62 thousand to other expense of \$48 thousand for the three months ended September 30, 2021 from other expense of \$110 thousand for the three months ended September 30, 2020 due to a decrease in interest expense as a result of the level of borrowings under our credit facility and an increase in other income.

Nine Months Ended September 30, 2021 versus Nine Months Ended September 30, 2020

Total other income (expense) net increased by \$179 thousand to other expense of \$231 thousand for the nine months ended September 30, 2021 from other expense of \$410 thousand for the nine months ended September 30, 2020 due to a decrease in interest expense as a result of the level of borrowings under our credit facility and an increase in other income.

Provision for Income Taxes

Three Months Ended September 30, 2021 versus Three Months Ended September 30, 2020

The provision for income taxes was \$1.8 million and \$1.4 million for the three months ended September 30, 2021 and 2020, respectively. The change was primarily related to the tax effect of the change in the fair value of the contingent consideration related to the Cortina Acquisition and by increased profitability during the current period as compared to the prior year. Our provision for income taxes as a percentage of income before provision for income taxes for the three months ended September 30, 2021 and 2020 was 21.9% and 28.1%, respectively.

Nine Months Ended September 30, 2021 versus Nine Months Ended September 30, 2020

The provision for income taxes was \$4.6 million and \$4.6 million for the nine months ended September 30, 2021 and 2020, respectively. Our provision for income taxes as a percentage of income before provision for income taxes for the nine months ended September 30, 2021 and 2020 was 22.1% and 24.6%, respectively.

Supplemental Non-GAAP Financial Information

To provide investors with additional insight, promote transparency and allow for a more comprehensive understanding of the information used by management in its financial and operational decision-making, we supplement our Condensed Consolidated Financial Statements presented on a basis consistent with U.S. generally accepted accounting principles, or GAAP, with Adjusted EBITDA, Adjusted EBITDA margin, Adjusted Net Income, and Adjusted Earnings Per Share which are non-GAAP financial measures of earnings.

- EBITDA represents net income before provision for income taxes, interest income, interest expense, depreciation and amortization.
- We define Adjusted EBITDA as EBITDA without giving effect to the Delaware franchise tax, professional fees associated with acquisitions or financing transactions, gains on extinguishment of debt or other obligations related to acquisitions, impairment charges and losses on disposals or abandonment of assets and leaseholds, client reimbursements and fund redemption costs, severance and other similar expenses, but including partner incentive allocations, prior to our initial public offering, as an expense. We feel that it is important to management and investors to supplement our Condensed Consolidated Financial Statements presented on a GAAP basis with Adjusted EBITDA, a non-GAAP financial measure of earnings, as this measure provides a perspective of recurring earnings of the Company, taking into account earnings attributable to both Class A and Class B shareholders.
- Adjusted EBITDA Margin is calculated by dividing Adjusted EBITDA by total revenue. We feel that it is important to management and investors to supplement our Condensed Consolidated Financial Statements presented on a GAAP basis with Adjusted EBITDA Margin, a non-GAAP financial measure of earnings, as this measure provides a perspective of recurring profitability of the Company, taking into account profitability attributable to both Class A and Class B shareholders.
- Adjusted Net Income represents recurring net income without giving effect to professional fees associated with acquisitions or financing transactions, losses on forgiveness of notes receivable from our principals, gains on extinguishment of debt or other obligations related to acquisitions, impairment charges and losses on disposals or abandonment of assets and leaseholds, client reimbursements and fund redemption costs, severance and other similar expenses, but including partner incentive allocations, prior to our initial public offering, as an expense. Furthermore, Adjusted Net Income includes income tax expense assuming a blended corporate rate of 26%. We feel that it is important to management and investors to supplement our Condensed Consolidated Financial Statements presented on a GAAP

basis with Adjusted Net Income, a non-GAAP financial measure of earnings, as this measure provides a perspective of recurring income of the Company, taking into account income attributable to both Class A and Class B shareholders.

- Adjusted Earnings Per Share represents Adjusted Net Income divided by the actual Class A and Class B shares outstanding as of the end of the reporting period for basic Adjusted Earnings Per Share, and to the extent dilutive, we add unvested restricted stock units and non-qualified stock options to the total shares outstanding to compute diluted Adjusted Earnings Per Share. As a result of our structure, which includes a non-controlling interest, we feel that it is important to management and investors to supplement our Condensed Consolidated Financial Statements presented on a GAAP basis with Adjusted Earnings Per Share, a non-GAAP financial measure of earnings, as this measure provides a perspective of recurring earnings per share of the Company as a whole as opposed to being limited to our Class A common stock.

These adjustments, and the non-GAAP financial measures that are derived from them, provide supplemental information to analyze our operations between periods and over time. Investors should consider our non-GAAP financial measure in addition to, and not as a substitute for, financial measures prepared in accordance with GAAP.

The following tables contain reconciliations of net income to Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings Per Share (amounts in thousands except per share amounts).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Reconciliation of non-GAAP financial measure:				
Net income	\$ 6,354	\$ 3,480	\$ 16,350	\$ 13,952
GAAP Provision for income taxes	1,779	1,359	4,630	4,558
Delaware Franchise Tax	50	50	150	150
Interest expense	92	120	294	445
Interest income	(1)	(2)	(5)	(12)
Depreciation and amortization	981	968	2,942	2,995
Equity-based compensation	345	193	807	456
Other adjustments (A)	745	1,951	5,262	455
Adjusted EBITDA	\$ 10,345	\$ 8,119	\$ 30,430	\$ 22,999
Adjusted EBITDA Margin	30.9%	29.9%	31.1%	28.9%

Adjusted Net Income and Adjusted Earnings Per Share

Reconciliation of non-GAAP financial measure:				
Net income	\$ 6,354	\$ 3,480	\$ 16,350	\$ 13,952
GAAP Provision for income taxes	1,779	1,359	4,630	4,558
Delaware Franchise Tax	50	50	150	150
Other adjustments (A)	745	1,951	5,262	455
Adjusted earnings before provision for income taxes	8,928	6,840	26,392	19,115
Adjusted provision for income taxes:				
Adjusted provision for income taxes (26% assumed tax rate)	(2,321)	(1,778)	(6,862)	(4,970)
Adjusted net income	\$ 6,607	\$ 5,062	\$ 19,530	\$ 14,145
GAAP net income per share (B):				
Basic and diluted	\$ 0.38	\$ 0.22	\$ 0.99	\$ 0.85
Adjusted earnings per share/unit (B):				
Basic	\$ 0.46	\$ 0.35	\$ 1.35	\$ 0.98
Diluted	\$ 0.44	\$ 0.35	\$ 1.31	\$ 0.97
Shares/units outstanding:				
Basic Class A shares outstanding	9,653	9,545	9,653	9,545
Basic Class B shares/units outstanding	4,815	4,828	4,815	4,828
Total basic shares/units outstanding	14,468	14,373	14,468	14,373
Diluted Class A shares outstanding (C)	9,675	9,553	9,675	9,553
Diluted Class B shares/units outstanding (D)	5,239	4,989	5,239	4,989
Total diluted shares/units outstanding	14,914	14,542	14,914	14,542

(A) Other adjustments consist of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Acquisition costs (a)	\$ 16	\$ 38	\$ 347	\$ 318
Severance	10	—	10	—
Other (b)	719	1,913	4,905	137
Total other adjustments	\$ 745	\$ 1,951	\$ 5,262	\$ 455

- (a) For the three months ended September 30, 2021, represents insurance costs of \$11 and professional fees of \$5 related to the acquisition of Cortina. For the nine months ended September 30, 2021, represents equity-based compensation expense of \$300 related to restricted stock unit grants issued to two associates hired as part of the Cortina Acquisition in conjunction with their admission to Silvercrest L.P., insurance costs of \$34 and professional fees of \$14 related to the acquisition of Cortina. For the three months ended September 30, 2020, represents legal and other professional fees of \$27 and insurance costs of \$11 related to the acquisition of Cortina. For the nine months ended September 30, 2020, represents legal and other professional fees of \$111, insurance costs of \$34 related to the acquisition of Cortina, and costs related to the integration of Cortina's operations of \$173.
- (b) For the three months ended September 30, 2021, represents a fair value adjustment to the Cortina contingent purchase price consideration of \$670, an ASC 842 rent adjustment of \$48 related to the amortization of property lease incentives and expenses related to the Coronavirus pandemic of \$1. For the nine months ended September 30, 2021, represents a fair value adjustment to the Cortina contingent purchase price consideration of \$4,570, an ASC 842 rent adjustment of \$144 related to the amortization of property lease incentives and expenses related to the Coronavirus pandemic of \$191. For the three months ended September 30, 2020, represents an ASC 842 rent adjustment of \$48 related to the amortization of property lease incentives, a fair value adjustment to the Cortina contingent purchase price consideration of \$1,700 and expenses related to the Coronavirus pandemic of \$165. For the nine months ended September 30, 2020, represents expenses of \$18 related to office renovations, an ASC 842 rent adjustment of \$144 related to the amortization of property lease incentives, professional fees related to a new audit requirement of \$13, a fair value adjustment to the Cappicille contingent purchase price consideration of \$83, a fair value adjustment to the Cortina contingent purchase price consideration of \$(500), a fair value adjustment to the Jamison contingent purchase price consideration of \$70, and expenses related to the Coronavirus pandemic of \$309.
- (B) GAAP net income per share is strictly attributable to Class A shareholders. Adjusted earnings per share takes into account earnings attributable to both Class A and Class B shareholders.
- (C) Includes 21,704 and 8,242 unvested restricted stock units at September 30, 2021 and 2020, respectively.
- (D) Includes 170,854 and 74,907 unvested restricted stock units and 252,904 and 86,764 unvested non-qualified options at September 30, 2021 and 2020, respectively.

Liquidity and Capital Resources

Historically, the working capital needs of our business have primarily been met through cash generated by our operations. We expect that our cash and liquidity requirements in the next twelve months will be met primarily through cash generated by our operations. The challenges posed by the COVID-19 pandemic and the impact on our business and cash flows are evolving rapidly and cannot be predicted at this time. Consequently, we will continue to evaluate our liquidity and financial position on an ongoing basis.

On June 24, 2013, the subsidiaries of Silvercrest L.P. entered into a \$15.0 million credit facility with City National Bank. The subsidiaries of Silvercrest L.P. are the borrowers under such facility and Silvercrest L.P. guarantees the obligations of its subsidiaries under the credit facility. The credit facility is secured by certain assets of Silvercrest L.P. and its subsidiaries. The credit facility consists of a \$7.5 million delayed draw term loan that matures on June 24, 2025 and a \$7.5 million revolving credit facility that was scheduled to mature on June 21, 2019. On July 1, 2019, the credit facility was amended to increase the term loan by \$18.0 million to \$25.5 million, extend the draw date on the term loan facility to July 1, 2024, extend the maturity date of the term loan to July 1, 2026 and increase the revolving credit facility by \$2.5 million to \$10.0 million. On June 17, 2021, the revolving credit facility was further amended to extend the maturity date to June 18, 2022. The loan bears interest at either (a) the higher of the prime rate plus a margin of 0.25 percentage points and 2.5% or (b) the LIBOR rate plus 2.75 percentage points, at the borrowers' option. Borrowings under the term loan on or prior to June 30, 2021 are payable in 20 equal quarterly installments. Borrowings under the term loan after June 30, 2021 will be payable in equal quarterly installments through the maturity date. The credit facility contains restrictions on, among other things, (i) incurrence of additional debt, (ii) creating liens on certain assets, (iii) making certain investments, (iv) consolidating, merging or otherwise disposing of substantially all of our assets, (v) the sale of certain assets, and (vi) entering into transactions with affiliates. In addition, the credit facility contains certain financial covenants including a test on discretionary assets under management, maximum debt to EBITDA and a fixed charge coverage ratio. The credit facility contains customary events of default, including the occurrence of a change in control which includes a person or group of persons acting together acquiring more than 30% of the total voting securities of Silvercrest. Any undrawn amounts under this facility would be available to fund future acquisitions or for working capital purposes, if needed. As of September 30, 2021, we had \$9.9 million outstanding under the term loan. As of September 30, 2021, there were no borrowings outstanding on the revolving credit facility. We were in compliance with the covenants under the credit facility as of September 30, 2021.

Our ongoing sources of cash will primarily consist of management fees and family office services fees, which are principally collected quarterly. We will primarily use cash flow from operations to pay compensation and related expenses, general and administrative expenses, income taxes, debt service, capital expenditures, distributions to Class B unit holders and dividends on shares of our Class A common stock.

Seasonality typically affects cash flow since the first quarter of each year includes, as a source of cash, payment of the prior year's annual performance fees and allocations, if any, from our various funds and external investment strategies and, as a use of cash, the prior fiscal year's incentive compensation. We believe that we have sufficient cash from our operations to fund our operations and commitments for the next twelve months.

The following table sets forth certain key financial data relating to our liquidity and capital resources as of September 30, 2021 and December 31, 2020.

(in thousands)	As of	
	September 30, 2021	December 31, 2020
Cash and cash equivalents	\$ 65,930	\$ 62,498
Accounts receivable	\$ 9,386	\$ 8,341
Due from Silvercrest Funds	\$ 2,188	\$ 1,018

We anticipate that distributions to the limited partners of Silvercrest L.P. will continue to be a material use of our cash resources and will vary in amount and timing based on our operating results and dividend policy. We pay and intend to continue paying quarterly cash dividends to holders of our Class A common stock. We are a holding company and have no material assets other than our ownership of interests in Silvercrest L.P. As a result, we will depend upon distributions from Silvercrest L.P. to pay any dividends to our Class A stockholders. We expect to cause Silvercrest L.P. to make distributions to us in an amount sufficient to cover dividends, if any, declared by us. Our dividend policy has certain risks and limitations, particularly with respect to liquidity. Although we expect to pay dividends according to our dividend policy, we may not pay dividends according to our policy, or at all, if, among other things, we do not have the cash necessary to pay our intended dividends or our subsidiaries are prevented from making a distribution to us under the terms of our current credit facility or any future financing. To the extent we do not have cash on hand sufficient to pay dividends, we may decide not to pay dividends. By paying cash dividends rather than investing that cash in our future growth, we risk slowing the pace of our growth, or not having a sufficient amount of cash to fund our operations or unanticipated capital expenditures, should the need arise.

Our purchase of Class B units in Silvercrest L.P. that occurred concurrently with the consummation of our initial public offering, and the future exchanges of Class B units of Silvercrest L.P., are expected to result in increases in our share of the tax basis of the tangible and intangible assets of Silvercrest L.P. at the time of our acquisition and these future exchanges, which will increase the tax depreciation and amortization deductions that otherwise would not have been available to us. These increases in tax basis and tax depreciation and amortization deductions are expected to reduce the amount of tax that we would otherwise be required to pay in the future. We entered into a tax receivable agreement with the current principals of Silvercrest L.P. and any future employee-holders of Class B units pursuant to which we agreed to pay them 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that we actually realize as a result of these increases in tax basis and certain other tax benefits related to entering into the tax receivable agreement, including tax benefits attributable to payments thereunder. The timing of these payments is currently unknown. The payments to be made pursuant to the tax receivable agreement will be a liability of Silvercrest and not Silvercrest L.P., and thus this liability has been recorded as an "other liability" on our Condensed Consolidated Statement of Financial Condition. For purposes of the tax receivable agreement, cash savings in income tax will be computed by comparing our actual income tax liability to the amount of such taxes that we would have been required to pay had there been no increase in our share of the tax basis of the tangible and intangible assets of Silvercrest L.P.

The actual increase in tax basis, as well as the amount and timing of any payments under the tax receivable agreement, will vary depending upon a number of factors, including the timing of exchanges, the price of shares of our Class A common stock at the time of the exchange, the extent to which such exchanges are taxable, the amount and timing of our income and the tax rates then applicable. Nevertheless, we expect that as a result of the size of the increases in the tax basis of our tangible and intangible assets, the payments that we may make under the tax receivable agreement likely will be substantial. Assuming no material changes in the relevant tax law and that we earn sufficient taxable income to realize the full tax benefit of the increased depreciation and amortization of our assets, we expect that future payments to the selling principals of Silvercrest L.P. in respect of our purchase of Class B units from them will aggregate approximately \$9.5 million. Future payments to current principals of Silvercrest L.P. and future holders of Class B units in respect of subsequent exchanges would be in addition to these amounts and are expected to be substantial. We intend to fund required payments pursuant to the tax receivable agreement from the distributions received from Silvercrest L.P.

Cash Flows

The following table sets forth our cash flows for the nine months ended September 30, 2021 and 2020. Operating activities consist of net income subject to adjustments for changes in operating assets and liabilities, depreciation, and equity-based compensation expense. Investing activities consist primarily of acquiring and selling property and equipment, and cash paid as part of business acquisitions. Financing activities consist primarily of contributions from partners, distributions to partners, dividends paid on Class A common stock, the issuance and payments on partner notes, other financings, and earnout payments related to business acquisitions.

(in thousands)	Nine Months Ended September 30,	
	2021	2020
Net cash provided operating activities	\$ 21,643	\$ 10,105
Net cash used in investing activities	(630)	(453)
Net cash used in financing activities	(17,581)	(14,313)
Net change in cash	<u>\$ 3,432</u>	<u>\$ (4,661)</u>

Operating Activities

Nine Months Ended September 30, 2021 versus Nine Months Ended September 30, 2020

For the nine months ended September 30, 2021 and 2020, operating activities provided \$21.6 million and provided \$10.1 million, respectively. This difference is primarily the result of an increase in net income of \$2.4 million, increased non-cash lease expense of \$1.1 million, an increase in accounts payable and accrued expense of \$6.0 million primarily due to a change in the fair value of contingent consideration related to the Cortina Acquisition, an increase in equity-based compensation expense of \$0.7 million and an increase in accrued compensation of \$7.4 million. This was partially offset by a decrease in distributions received from investment funds of \$0.9 million, an increase in accounts receivable of \$2.4 million due to timing of payments received from clients, increased operating lease liabilities of \$0.6 million, decreased deferred income taxes of \$1.3 million, a decrease in depreciation and amortization of \$0.1 million and an increase in prepaid expenses and other assets of \$0.7 million.

Investing Activities

Nine Months Ended September 30, 2021 versus Nine Months Ended September 30, 2020

For the nine months ended September 30, 2021 and 2020, investing activities used \$0.6 million and \$0.5 million, respectively. The primary use of cash during the nine months ended September 30, 2021 was for the acquisition of furniture, equipment and leasehold improvements. The primary use of cash during the nine months ended September 30, 2020 was for the acquisition of furniture, equipment and leasehold improvements mostly related to the renovation of our office space in New York City.

Financing Activities

Nine Months Ended September 30, 2021 versus Nine Months Ended September 30, 2020

For the nine months ended September 30, 2021 and 2020, financing activities used \$17.6 million and used \$14.3 million, respectively. During the nine months ended September 30, 2021 and 2020, the Company repaid \$2.7 million and \$2.7 million, respectively, of principal on the term loan with City National Bank. Distributions to partners during the nine months ended September 30, 2021 and 2020 were \$6.8 million and \$6.5 million, respectively. During the nine months ended September 30, 2021 and 2020, the Company paid dividends of \$4.7 million and \$4.6 million, respectively, to Class A shareholders. During the nine months ended September 30, 2021 and 2020, we made earnout payments of \$3.0 million and \$0.7 million, respectively. During the nine months ended September 30, 2021 and 2020, we received payments from partners on notes receivable of \$0.2 million and \$0.3 million, respectively. During the nine months ended September 30, 2021, we purchased approximately 27 thousand shares of Class A common stock of Silvercrest Asset Management Group Inc. at a cost of \$0.4 million.

We anticipate that distributions to principals of Silvercrest L.P. will continue to be a material use of our cash resources, and will vary in amount and timing based on our operating results and dividend policy.

As of September 30, 2021 and December 31, 2020, \$9.9 million and \$12.6, respectively, was outstanding under the term loan with City National Bank. As of September 30, 2021 and December 31, 2020, accrued but unpaid interest on the term loan with City National Bank was \$27 thousand and \$0, respectively.

As of September 30, 2021 and December 31, 2020, nothing was outstanding on our revolving credit facility with City National Bank.

Critical Accounting Policies and Estimates

There have been no changes to our critical accounting policies during the nine months ended September 30, 2021 from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2020 filed with the Securities and Exchange Commission on March 4, 2021.

Revenue Recognition

Investment advisory fees are typically billed quarterly in advance at the beginning of the quarter or in arrears after the end of the quarter, based on a contractual percentage of the assets managed. Family office services fees are also typically billed quarterly in advance at the beginning of the quarter or in arrears after the end of the quarter based on a contractual percentage of the assets managed or upon a contractually agreed-upon flat fee arrangement. Revenue is recognized on a ratable basis over the period in which services are performed.

We account for performance-based revenue in accordance with ASC 606-10-32, Accounting for Management Fees Based on a Formula, by recognizing performance fees and allocations as revenue only when it is certain that the fee income is earned and payable pursuant to the relevant agreements. In certain arrangements, we are only entitled to receive performance fees and allocations when the return on assets under management exceeds certain benchmark returns or other performance targets. We record performance fees and allocations as a component of revenue.

Because the majority of our revenues are earned based on assets under management that have been determined using fair value methods and since market appreciation/depreciation has a significant impact on our revenue, we have presented our assets under management using the GAAP framework for measuring fair value. That framework provides a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs based on company assumptions (Level 3). A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the instrument's fair value measurement. The three levels within the fair value hierarchy are described as follows:

- Level 1—includes quoted prices (unadjusted) in active markets for identical instruments at the measurement date. The types of financial instruments included in Level 1 include unrestricted securities, including equities listed in active markets.
- Level 2—includes inputs other than quoted prices that are observable for the instruments, including quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or inputs other than quoted prices that are observable for the instruments. The type of financial instruments in this category include less liquid and restricted securities listed in active markets, securities traded in other than active markets, government and agency securities, and managed funds whose net asset value is based on observable inputs.
- Level 3—includes one or more significant unobservable inputs. Financial instruments that are included in this category include assets under management primarily comprised of investments in privately held entities, limited partnerships, and other instruments where the fair value is based on unobservable inputs.

The table below summarizes the approximate amount of assets under management for the periods indicated for which fair value is measured based on Level 1, Level 2 and Level 3 inputs.

	Level 1	Level 2	Level 3	Total
			(in billions)	
September 30, 2021 AUM	\$ 22.6	\$ 6.7	\$ 1.7	\$ 31.0
December 31, 2020 AUM	\$ 20.5	\$ 4.7	\$ 2.6	\$ 27.8

As substantially all our assets under management are valued by independent pricing services based upon observable market prices or inputs, we believe market risk is the most significant risk underlying valuation of our assets under management, as discussed under the heading "Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2020 and Item 3. "— Qualitative and Quantitative Disclosures Regarding Market Risk."

The average value of our assets under management for the three and nine months ended September 30, 2021 was approximately \$31.0 billion and \$29.4 billion, respectively. Assuming a 10% increase or decrease in our average assets under management and the change being proportionately distributed over all our products, the value would increase or decrease by approximately \$3.1 billion and \$2.9 billion for the three and nine months ended September 30, 2021, respectively, which would cause an annualized increase or decrease in revenues of approximately \$13.4 million and \$13.0 million for the three and nine months ended September 30, 2021, respectively, at a weighted average fee rate for the three and nine months ended September 30, 2021 of 0.43% and 0.44%, respectively.

The average value of our assets under management for the year ended December 31, 2020 was approximately \$26.5 billion. Assuming a 10% increase or decrease in our average assets under management and the change being proportionately distributed over all our products, the value would increase or decrease by approximately \$2.7 billion for the year ended December 31, 2020, which would cause an annualized increase or decrease in revenues of approximately \$10.8 million for the year ended December 31, 2020, at a weighted average fee rate for the year ended December 31, 2020 of 0.41%.

Recently Issued Accounting Pronouncements

Information regarding recent accounting developments and their impact on the Company can be found in Note 2. “Summary of Significant Accounting Policies” in the “Notes to Condensed Consolidated Financial Statements” in this filing.

Item 3. Quantitative and Qualitative Disclosures Regarding Market Risk

Our exposure to market risk is directly related to our role as investment adviser for the separate accounts we manage and the funds for which we act as sub-investment adviser. Most of our revenue for the three and nine months ended September 30, 2021 and 2020 was derived from advisory fees, which are typically based on the market value of assets under management. Accordingly, a decline in the prices of securities would cause our revenue and income to decline due to a decrease in the value of the assets we manage. In addition, such a decline could cause our clients to withdraw their funds in favor of investments offering higher returns or lower risk, which would cause our revenue and income to decline further. Due to the nature of our business, we believe that we do not face any material risk from inflation. Please see our discussion of market risks in “—Critical Accounting Policies and Estimates—Revenue Recognition” which is part of Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act of 1934, as amended) at September 30, 2021. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at September 30, 2021.

Internal Control over Financial Reporting

Changes in Internal Control Over Financial Reporting

There were no changes in the Company’s internal control over financial reporting that occurred during the quarter ended September 30, 2021 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting. We have not experienced any material impact to our internal controls over financial reporting despite the fact that most of our employees are working remotely due to the COVID-19 pandemic. We are continually monitoring and assessing the COVID-19 pandemic situation on our internal controls to minimize the impact on their design and operating effectiveness.

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness, as of September 30, 2021, of the design and operation of our disclosure controls and procedures, as such term is defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based on this evaluation, our principal executive officer and principal financial officer have concluded that, as of such date, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

PART II - Other Information

Item 6. Exhibits

Exhibit Number	Description
31.1**	<u>Certification of the Company's Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2**	<u>Certification of the Company's Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1***	<u>Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2***	<u>Certification of the Company's Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS**	Inline XBRL Instance Document – The instance document does not appear in the Interactive Data File because iXBRL tags are embedded within the Inline XBRL document.
101.SCH**	Inline XBRL Taxonomy Extension Schema Document
101.CAL**	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB**	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF**	Inline XBRL Taxonomy Extension Definition Linkbase Document
104**	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

** Filed herewith

*** Furnished herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of New York, state of New York, on November 4, 2021.

Silvercrest Asset Management Group Inc.

Date: November 4, 2021

By: /s/ Richard R. Hough III
Richard R. Hough III
Chairman, Chief Executive Officer and President
(Principal Executive Officer)

Date: November 4, 2021

/s/ Scott A. Gerard
Scott A. Gerard
Chief Financial Officer
(Principal Financial and Accounting Officer)

CERTIFICATION

I, Richard R. Hough III, certify that:

1. I have reviewed this report on Form 10-Q of Silvercrest Asset Management Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Richard R. Hough III	
Richard R. Hough III	
Chairman, Chief Executive Officer and President	
(Principal Executive Officer)	

Date: November 4, 2021

CERTIFICATION

I, Scott A. Gerard, certify that:

1. I have reviewed this report on Form 10-Q of Silvercrest Asset Management Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Scott A. Gerard	
Scott A. Gerard	
Chief Financial Officer	
(Principal Financial and Accounting Officer)	

Date: November 4, 2021

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Richard R. Hough III, the Chairman, Chief Executive Officer and President of Silvercrest Asset Management Group Inc. (the "Company"), hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- The Quarterly Report on Form 10-Q of the Company for the three and nine months ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-Q"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Richard R. Hough III	
Richard R. Hough III	
Chairman, Chief Executive Officer and President	
(Principal Executive Officer)	

Date: November 4, 2021

The foregoing certification is being furnished to the Securities and Exchange Commission as part of the accompanying report on Form 10-Q. A signed original of this statement has been provided to Silvercrest Asset Management Group Inc. and will be retained by Silvercrest Asset Management Group Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Scott A. Gerard, the Chief Financial Officer of Silvercrest Asset Management Group Inc. (the "Company"), hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- The Quarterly Report on Form 10-Q of the Company for the three and nine months ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-Q"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Scott A. Gerard	
Scott A. Gerard	
Chief Financial Officer	
(Principal Financial and Accounting Officer)	

Date: November 4, 2021

The foregoing certification is being furnished to the Securities and Exchange Commission as part of the accompanying report on Form 10-Q. A signed original of this statement has been provided to Silvercrest Asset Management Group Inc. and will be retained by Silvercrest Asset Management Group Inc. and furnished to the Securities and Exchange Commission or its staff upon request.