

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

[Table of Contents](#)

**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 March 31, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 001-38604

Focus Financial Partners Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

47-4780811
(I.R.S. Employer
Identification No.)

875 Third Avenue, 28th Floor
New York, NY
(Address of Principal Executive Offices)

10022
(Zip Code)

(646) 519-2456

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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 Exchange Act.

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

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, par value \$0.01 per share	FOCS	Nasdaq Global Select Market

As of May 3, 2019, the registrant had 46,692,832 shares of Class A common stock and 22,568,831 shares of Class B common stock outstanding.

**FOCUS FINANCIAL PARTNERS INC.
INDEX TO FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2019**

	<u>Page No.</u>
PART I: FINANCIAL INFORMATION	1
Item 1. Financial Statements	1
Unaudited condensed consolidated balance sheets	2
Unaudited condensed consolidated statements of operations	3
Unaudited condensed consolidated statements of comprehensive loss	4
Unaudited condensed consolidated statements of cash flows	5
Unaudited condensed consolidated statements of changes in members' deficit/shareholders' equity	6
Notes to unaudited condensed consolidated financial statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Item 3. Quantitative and Qualitative Disclosures about Market Risk	41
Item 4. Controls and Procedures	41
PART II: OTHER INFORMATION	43
Item 1. Legal Proceedings	43
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	43
Item 6. Exhibits	43
SIGNATURES	45

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

Financial Statements Introductory Note

The unaudited condensed consolidated financial statements and other disclosures contained in this report include those of Focus Financial Partners Inc. ("we," "us," "our," "Focus Inc.," the "Registrant" or the "Company"), which is the registrant, and those of Focus Financial Partners, LLC, a Delaware limited liability company ("Focus LLC"), which became the principal operating subsidiary of the Registrant in a series of reorganization transactions that were completed on July 30, 2018 (the "Reorganization Transactions") in connection with our initial public offering ("IPO"). For more information regarding the transactions described above, see Note 3 to the unaudited condensed consolidated financial statements contained in this Quarterly Report on Form 10-Q.

As a result of the IPO and Reorganization Transactions, we became the managing member of Focus LLC. The unaudited condensed consolidated financial statements reflect the historical results of operations and financial position of the Company, including consolidation of its investment in Focus LLC, since July 30, 2018. Prior to July 30, 2018, the closing date of the IPO, the unaudited condensed consolidated financial statements represent the financial statements of Focus LLC. The unaudited condensed consolidated financial statements do not reflect what the financial position, results of operations or cash flows of the Company or Focus LLC would have been had these companies been stand-alone public companies for the periods presented. Specifically, the historical financial statements of Focus LLC do not give effect to the following matters:

- IPO and Reorganization Transactions;
- U.S. corporate federal income taxes; and
- Noncontrolling interest held by other members of Focus LLC after the IPO and Reorganization Transactions.

FOCUS FINANCIAL PARTNERS INC.
Unaudited condensed consolidated balance sheets
(In thousands, except share amounts)

	December 31, 2018	March 31, 2019
ASSETS		
Cash and cash equivalents	\$ 33,213	\$ 83,779
Accounts receivable less allowances of \$576 at 2018 and \$661 at 2019	98,596	119,202
Prepaid expenses and other assets	76,150	83,501
Fixed assets—net	24,780	24,860
Operating lease assets	—	171,189
Debt financing costs—net	12,340	11,666
Deferred tax assets—net	70,009	75,360
Goodwill	860,495	945,503
Other intangible assets—net	762,195	881,096
TOTAL ASSETS	<u>\$ 1,937,778</u>	<u>\$ 2,396,156</u>
LIABILITIES AND EQUITY		
LIABILITIES:		
Accounts payable	\$ 8,935	\$ 13,603
Accrued expenses	36,252	42,054
Due to affiliates	39,621	41,281
Deferred revenue	6,215	7,870
Other liabilities	158,497	169,717
Operating lease liabilities	—	181,597
Borrowings under credit facilities (stated value of \$838,985 and \$1,086,978 at December 31, 2018 and March 31, 2019, respectively)	836,582	1,084,683
Tax receivable agreements obligation	39,156	43,075
TOTAL LIABILITIES	<u>1,125,258</u>	<u>1,583,880</u>
COMMITMENTS AND CONTINGENCIES (Note 13)		
EQUITY:		
Class A common stock, par value \$0.01, 500,000,000 shares authorized; 46,265,903 and 46,675,183 shares issued and outstanding at December 31, 2018 and March 31, 2019, respectively	462	467
Class B common stock, par value \$0.01, 500,000,000 shares authorized; 22,823,272 and 22,568,831 shares issued and outstanding at December 31, 2018 and March 31, 2019, respectively	228	225
Additional paid-in capital	471,386	459,488
Accumulated deficit	(590)	(3,532)
Accumulated other comprehensive loss	(1,824)	(1,594)
Total shareholders' equity	469,662	455,054
Non-controlling interest	342,858	357,222
Total equity	812,520	812,276
TOTAL LIABILITIES AND EQUITY	<u>\$ 1,937,778</u>	<u>\$ 2,396,156</u>

See notes to unaudited condensed consolidated financial statements

FOCUS FINANCIAL PARTNERS INC.
Unaudited condensed consolidated statements of operations
(In thousands, except share and per share amounts)

	For the three months ended March 31,	
	2018	2019
REVENUES:		
Wealth management fees	\$ 184,323	\$ 243,084
Other	11,906	16,840
Total revenues	<u>196,229</u>	<u>259,924</u>
OPERATING EXPENSES:		
Compensation and related expenses	73,349	101,448
Management fees	46,300	57,006
Selling, general and administrative	36,287	52,257
Management contract buyout	—	1,428
Intangible amortization	19,494	28,741
Non-cash changes in fair value of estimated contingent consideration	6,371	7,414
Depreciation and other amortization	1,882	2,313
Total operating expenses	<u>183,683</u>	<u>250,607</u>
INCOME FROM OPERATIONS	<u>12,546</u>	<u>9,317</u>
OTHER INCOME (EXPENSE):		
Interest income	142	197
Interest expense	(14,272)	(12,859)
Amortization of debt financing costs	(959)	(782)
Gain on sale of investment	5,509	—
Loss on extinguishment of borrowings	(14,011)	—
Other income (expense)—net	93	(236)
Income from equity method investments	74	314
Total other expense-net	<u>(23,424)</u>	<u>(13,366)</u>
LOSS BEFORE INCOME TAX	<u>(10,878)</u>	<u>(4,049)</u>
INCOME TAX EXPENSE (BENEFIT)	<u>1,176</u>	<u>(1,221)</u>
NET LOSS	<u>\$ (12,054)</u>	<u>(2,828)</u>
Non-controlling interest		(114)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS		<u>\$ (2,942)</u>
Loss per share of Class A common stock:		
Basic		<u>\$ (0.06)</u>
Diluted		<u>\$ (0.06)</u>
Weighted average shares of Class A common stock outstanding:		
Basic		<u>46,211,599</u>
Diluted		<u>46,211,599</u>

See notes to unaudited condensed consolidated financial statements

FOCUS FINANCIAL PARTNERS INC.

Unaudited condensed consolidated statements of comprehensive loss

(In thousands)

	For the three months ended March 31,	
	2018	2019
Net loss	\$ (12,054)	\$ (2,828)
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of tax	(384)	354
Comprehensive loss	<u>\$ (12,438)</u>	<u>(2,474)</u>
Less: Comprehensive income attributable to noncontrolling interest		(238)
Comprehensive loss attributable to common shareholders		<u>\$ (2,712)</u>

See notes to unaudited condensed consolidated financial statements

FOCUS FINANCIAL PARTNERS INC.

Unaudited condensed consolidated statements of cash flows

(In thousands)

	For the three months ended March 31,	
	2018	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (12,054)	\$ (2,828)
Adjustments to reconcile net loss to net cash provided by operating activities—net of effect of acquisitions:		
Intangible amortization	19,494	28,741
Depreciation and other amortization	1,882	2,313
Amortization of debt financing costs	959	782
Non-cash equity compensation expense	3,854	3,921
Non-cash changes in fair value of estimated contingent consideration	6,371	7,414
Income from equity method investments	(74)	(314)
Distributions received from equity method investments	344	263
Other non-cash items	(368)	(575)
Loss on extinguishment of borrowings	14,011	—
Changes in cash resulting from changes in operating assets and liabilities:		
Accounts receivable	(11,017)	(20,690)
Prepaid expenses and other assets	(8,167)	(5,788)
Accounts payable	1,410	4,662
Accrued expenses	5,383	3,741
Due to affiliates	(9,914)	1,723
Other liabilities	(1,280)	(7,537)
Deferred revenue	1,891	85
Net cash provided by operating activities	<u>12,725</u>	<u>15,913</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash paid for acquisitions and contingent consideration—net of cash acquired	(25,531)	(203,394)
Purchase of fixed assets	(2,312)	(1,875)
Other	(3,400)	—
Net cash used in investing activities	<u>(31,243)</u>	<u>(205,269)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under credit facilities	—	295,000
Repayments of borrowings under credit facilities	(1,987)	(47,007)
Contingent consideration paid	(2,180)	(7,649)
Payments of debt financing costs	(634)	—
Proceeds from exercise of stock options	—	214
Payments on finance lease obligations	(59)	(57)
Distributions for unitholders	(138)	(596)
Net cash (used in) provided by financing activities	<u>(4,998)</u>	<u>239,905</u>
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	10	17
CHANGE IN CASH AND CASH EQUIVALENTS	<u>(23,506)</u>	<u>50,566</u>
CASH AND CASH EQUIVALENTS:		
Beginning of period	51,455	33,213
End of period	<u>\$ 27,949</u>	<u>\$ 83,779</u>

See Note 14 for supplemental cash flow disclosure
See notes to unaudited condensed consolidated financial statements

FOCUS FINANCIAL PARTNERS INC.
Unaudited condensed consolidated statements of changes in members' deficit/shareholders' equity
(In thousands, except share amounts)

	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Common Units	Total Members' Deficit/ Shareholders' Equity	Non- controlling Interest	Total Equity
	Shares	Amount	Shares	Amount							
Balance at January 1, 2018	—	\$ —	—	\$ —	30,731	\$ (805,470)	\$ (8,269)	4,347	\$ (778,661)	—	\$ (778,661)
Net loss	—	—	—	—	—	(12,054)	—	—	(12,054)	—	(12,054)
Issuance of restricted common units in connection with acquisitions and contingent consideration	—	—	—	—	—	—	—	6,584	6,584	—	6,584
Non-cash equity compensation expense-net of related forfeitures, related to incentive units	—	—	—	—	3,854	—	—	—	3,854	—	3,854
Currency translation adjustment-net of tax	—	—	—	—	—	—	(384)	—	(384)	—	(384)
Distribution for unitholders	—	—	—	—	—	32	—	—	32	—	32
Balance at March 31, 2018	—	\$ —	—	\$ —	34,585	\$ (817,492)	\$ (8,653)	10,931	\$ (780,629)	—	\$ (780,629)
Balance at January 1, 2019	46,265,903	\$ 462	22,823,272	\$ 228	471,386	\$ (590)	\$ (1,824)	—	\$ 469,662	\$ 342,858	\$ 812,520
Net loss	—	—	—	—	—	(2,942)	—	—	(2,942)	114	(2,828)
Issuance (cancellation) of common stock in connection with exercise of Focus LLC common unit exchange rights	254,441	3	(254,441)	(3)	9,267	—	—	—	9,267	—	9,267
Issuance of common stock in connection with exercise of Focus LLC incentive unit exchange rights	149,271	2	—	—	5,435	—	—	—	5,437	—	5,437
Forfeiture of unvested Class A common stock	(909)	—	—	—	(30)	—	—	—	(30)	—	(30)
Exercise of stock options	6,477	—	—	—	214	—	—	—	214	—	214
Change in noncontrolling interest allocation	—	—	—	—	(28,347)	—	—	—	(28,347)	14,126	(14,221)
Non-cash equity compensation expenses	—	—	—	—	705	—	—	—	705	—	705
Currency translation adjustment-net of tax	—	—	—	—	—	—	230	—	230	124	354
Adjustments of deferred taxes, net of amounts payable under tax receivable agreements and changes from Focus LLC interest transactions	—	—	—	—	858	—	—	—	858	—	858

Balance at March 31, 2019	<u>46,675,183</u>	\$	<u>467</u>	<u>22,568,831</u>	\$	<u>225</u>	<u>459,488</u>	\$	<u>(3,532)</u>	\$	<u>(1,594)</u>	\$	<u>—</u>	\$	<u>455,054</u>	\$	<u>357,222</u>	\$	<u>812,276</u>
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See notes to unaudited condensed consolidated financial statements

FOCUS FINANCIAL PARTNERS INC.

Notes to unaudited condensed consolidated financial statements

(In thousands, except unit data, share and per share amounts)

1. GENERAL

Organization and Business—The Company was formed as a Delaware corporation on July 29, 2015 for the sole purpose of completing the IPO and Reorganization Transactions in order to carry on the business of Focus LLC. On July 30, 2018, the Company became the managing member of Focus LLC and operates and controls the businesses and affairs of Focus LLC and its subsidiaries. Accordingly, the unaudited condensed consolidated financial statements reflect the historical results of operations and financial position of Focus LLC (predecessor) prior to July 30, 2018.

Focus LLC is a Delaware limited liability company that was formed in November 2004. Focus LLC's subsidiaries commenced revenue-generating and acquisition activities in January 2006. Focus LLC's activities were governed by its Third Amended and Restated Operating Agreement, as amended, through July 30, 2018 and then its Fourth Amended and Restated Operating Agreement (as amended, the "Operating Agreement"), effective on July 30, 2018.

Focus LLC is in the business of acquiring and overseeing independent fiduciary wealth management and related businesses.

2. SUMMARY OF ACCOUNTING POLICIES

Basis of Presentation—The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial statements and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of only normal recurring adjustments, considered necessary for fair presentation have been included. The unaudited condensed consolidated financial statements include the accounts of the Company and its majority and wholly owned subsidiaries. The Company consolidates Focus LLC and its subsidiaries' consolidated financial statements and records the interests in Focus LLC that the Company does not own as non-controlling interests. Non-controlling interests were measured initially at the proportionate share of Focus LLC's identifiable net assets at the date of the IPO. Intercompany transactions and balances have been eliminated in consolidation. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K as filed with the SEC on March 28, 2019.

Operating results for the three months ended March 31, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019.

Use of Estimates—The preparation of the unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Leases

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, "*Leases (Topic 842)*." ASU No. 2016-02 requires lessees to put

FOCUS FINANCIAL PARTNERS INC.

Notes to unaudited condensed consolidated financial statements (Continued)

(In thousands, except unit data, share and per share amounts)

2. SUMMARY OF ACCOUNTING POLICIES (Continued)

most leases on their balance sheets but recognize the expenses on their income statements in a manner similar to current practice. ASU 2016-02 states that a lessee would recognize a lease liability for the obligation to make lease payments and a right of use asset for the right to use the underlying asset for the lease term. ASU No. 2016-02 is effective for the Company for interim and annual periods beginning January 1, 2019 and early adoption is permitted. The Company adopted ASU No. 2016-02 effective January 1, 2019 using a modified retrospective method and therefore has not restated comparative periods. As permitted under the practical expedients as part of the transition guidance, the assessment of whether contracts contain a lease or are leases, the classification of leases and the remaining lease terms were carried forward. Based on the portfolio of leases as of January 1, 2019, the Company recognized approximately \$144,000 of lease liabilities and \$134,000 of right of use assets (which reflects the reclassification of previous deferred rent balances into the right of use asset as required under the transition guidance) on the balance sheet, primarily related to operating leases for real estate. There was no material impact to the consolidated statement of operations and comprehensive loss or consolidated statement of cash flows as a result of adoption of this new guidance. Refer to Note 12 for further information regarding leases.

Recent Accounting Pronouncements

In January 2017, the FASB issued ASU No. 2017-04, "*Simplifying the Test for Goodwill Impairment*," which removes the second step of the goodwill impairment test that requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU No. 2017-04 is effective for interim and annual reporting periods beginning after December 15, 2019 and will be applied prospectively. Early adoption is permitted. ASU No. 2017-04 is not expected to have a material effect on the Company's consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-07 "*Improvements to Nonemployee Share-Based Payment Accounting*," which simplifies the accounting for share-based payments to nonemployees by aligning it with the accounting for share-based payments to employees, with certain exceptions. ASU No. 2018-07 is effective for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. The adoption of ASU No. 2018-07 on January 1, 2019 did not have a material effect on the Company's consolidated financial statements.

3. IPO, REORGANIZATION TRANSACTIONS AND USE OF PROCEEDS

Initial Public Offering

On July 30, 2018, the Company completed its IPO of 18,648,649 shares of its Class A common stock, par value \$0.01 per share, including 2,432,432 shares of Class A common stock sold in connection with the full exercise of the option to purchase additional shares granted to the underwriters, at a price to the public of \$33.00 per share. The shares began trading on the NASDAQ Global Select Market on July 26, 2018 under the ticker symbol "FOCS."

FOCUS FINANCIAL PARTNERS INC.

Notes to unaudited condensed consolidated financial statements (Continued)

(In thousands, except unit data, share and per share amounts)

3. IPO, REORGANIZATION TRANSACTIONS AND USE OF PROCEEDS (Continued)

Reorganization Transactions

In connection with the IPO, Focus LLC completed the Reorganization Transactions. The equity interests in Focus LLC at the date of the IPO consisted of convertible preferred units, common units and incentive units, each incentive unit having a hurdle amount similar to the exercise price of a stock option. The owners of Focus LLC units immediately prior to the IPO ("Existing Owners") primarily included (i) affiliates of Focus LLC's private equity investors ("Private Equity Investors"), (ii) members of management of Focus LLC, (iii) current and former principals of independent fiduciary wealth management and related businesses acquired by Focus LLC and (iv) current and former employees of Focus LLC.

In connection with the Reorganization Transactions, all outstanding Focus LLC convertible preferred units converted into Focus LLC common units and the Company purchased certain Focus LLC common and incentive units from certain Existing Owners and issued an aggregate of 23,881,002 shares of Class A common stock, non-compensatory stock options to purchase an aggregate of 386,832 shares of Class A common stock, compensatory stock options to purchase an aggregate of 348,577 shares of Class A common stock and an aggregate of 22,499,665 shares of Class B common stock to certain Existing Owners. Due to certain post-closing adjustments, the Company cancelled 240,457 shares of Class A common stock and issued 240,457 shares of Class B common stock effective as of the closing date of the IPO.

Existing Owners who hold common units of Focus LLC after the Reorganization Transactions received shares of Class B common stock of the Company. Shares of Class B common stock do not entitle their holders to any economic rights. Holders of Class A common stock and Class B common stock of the Company vote together as a single class on all matters presented to the shareholders of the Company for their vote or approval, except as otherwise required by applicable law. Each share of Class A and Class B common stock entitles its holder to one vote.

Use of Proceeds

The Company received \$565,160 of net proceeds from the sale of the Class A common stock in the IPO including \$74,651 in connection with the full exercise of the option to purchase additional shares granted to the underwriters. The Company used \$35,537 of the net proceeds to pay certain Existing Owners who elected to sell their units of Focus LLC. The Company contributed \$529,623 of the net proceeds from the IPO to Focus LLC in exchange for 17,583,947 common units of Focus LLC. Focus LLC used \$392,535 of such contribution to reduce indebtedness under its Credit Facility (as defined below). The residual \$137,088 of such contribution was used by Focus LLC for acquisitions and general corporate business purposes.

4. NON-CONTROLLING INTEREST AND LOSS PER SHARE

Historical loss per share information is not applicable for reporting periods prior to the consummation of the IPO. Net loss attributable to common shareholders is the net loss recorded by the Company based on its interest in Focus LLC during the respective period after the IPO.

FOCUS FINANCIAL PARTNERS INC.**Notes to unaudited condensed consolidated financial statements (Continued)****(In thousands, except unit data, share and per share amounts)****4. NON-CONTROLLING INTEREST AND LOSS PER SHARE (Continued)**

The calculation of controlling and non-controlling interest is as follows as of March 31, 2019:

Focus LLC common units held by continuing owners	22,568,831
Common unit equivalents of outstanding vested and unvested incentive units held by continuing owners(1)	7,614,402
Total common units and common unit equivalents attributable to non-controlling interest	30,183,233
Total common units and common unit equivalents of incentive units outstanding	76,858,416
Non-controlling interest allocation	39.3%
Company's interest in Focus LLC	60.7%

- (1) Focus LLC common units issuable upon conversion of 18,048,706 (see Note 9) vested and unvested Focus LLC incentive units was calculated using the common unit equivalent of vested and unvested Focus LLC incentive units based on the closing price of the Company's Class A common stock on the last trading day of the period.

The below table contains a reconciliation of net loss to net loss attributable to common shareholders:

	Three months ended March 31, 2019
Net loss	\$ (2,828)
Non-controlling interest	(114)
Net loss attributable to common shareholders	<u>\$ (2,942)</u>

The calculation of basic and diluted loss per share is described below:

Basic loss per share is calculated utilizing net loss attributable to common shareholders for the three months ended March 31, 2019 divided by the weighted average number of shares of Class A common stock outstanding during the same period:

	Three months ended March 31, 2019
Basic loss per share:	
Net loss attributable to common shareholders	\$ (2,942)
Weighted average shares of Class A common stock outstanding	46,211,599
Basic loss per share	\$ (0.06)

Diluted loss per share is calculated utilizing net loss attributable to common shareholders for the three months ended March 31, 2019 divided by the weighted average number of shares of Class A common stock outstanding during the same period plus the effect, if any, of the potentially dilutive

FOCUS FINANCIAL PARTNERS INC.

Notes to unaudited condensed consolidated financial statements (Continued)

(In thousands, except unit data, share and per share amounts)

4. NON-CONTROLLING INTEREST AND LOSS PER SHARE (Continued)

shares of the Company's Class A common stock from stock options and unvested Class A common stock as calculated using the treasury stock method:

	Three months ended March 31, 2019
Diluted loss per share:	
Net loss attributable to common shareholders	\$ (2,942)
Weighted average shares of Class A common stock outstanding	46,211,599
Effect of dilutive stock options	—
Effect of dilutive unvested Class A common stock	—
Total	46,211,599
Diluted loss per share	\$ (0.06)

Diluted loss per share excludes incremental shares of 7,855 related to unvested Class A common stock since the effect would be antidilutive. Diluted loss per share also excludes shares related to 155,000 market-based stock options that vest on the fifth anniversary of the pricing of the IPO if the volume weighted average per share price for any ninety-calendar day period within such five-year period immediately following the pricing of the IPO reaches at least \$100. Such market-based criteria were not met at March 31, 2019.

5. ACQUISITIONS

Business Acquisitions

Business acquisitions are accounted for in accordance with Accounting Standards Codification ("ASC") Topic 805: *Business Combinations*.

The Company has incorporated contingent consideration, or earn out provisions, into the structure of its acquisitions. The Company recognizes the fair value of estimated contingent consideration at the acquisition date as part of the consideration transferred in the exchange. The contingent consideration is remeasured to fair value at each reporting date until the contingency is resolved. The purchase price

FOCUS FINANCIAL PARTNERS INC.

Notes to unaudited condensed consolidated financial statements (Continued)

(In thousands, except unit data, share and per share amounts)

5. ACQUISITIONS (Continued)

associated with business acquisitions and the allocation thereof during the three months ended March 31, 2019 is as follows:

Number of business acquisitions closed	12
Consideration:	
Cash due at closing	\$ 204,012
Fair market value of estimated contingent consideration	29,583
Total consideration	<u>\$ 233,595</u>
Allocation of purchase price:	
Total tangible assets	\$ 27,408
Total liabilities assumed	(25,906)
Customer relationships	140,596
Management contracts	6,154
Goodwill	84,899
Other intangibles	444
Total allocated consideration	<u>\$ 233,595</u>

Management believes approximately \$203,269 of tax goodwill and intangibles related to business acquisitions completed during the three months ended March 31, 2019 will be deductible for tax purposes over a 15 year period. Additional tax goodwill may be deductible when estimated contingent consideration is earned and paid.

The accompanying unaudited condensed consolidated statement of operations for the three months ended March 31, 2019 includes revenue and income from operations for the three business acquisitions that are new subsidiary partner firms from the date they were acquired of \$8,842 and \$867, respectively.

Asset Acquisitions

The Company also separately purchases customer relationships and other intangible assets. These purchases are accounted for as asset acquisitions as they do not qualify as business acquisitions pursuant to ASC Topic 805, *Business Combinations*. There were no asset acquisitions during the three months ended March 31, 2019.

The weighted-average useful lives of intangible assets acquired during the three months ended March 31, 2019 are as follows:

	Number of Years
Management contracts	20
Customer relationships	9
Other intangibles	5
Weighted-average useful life of all intangibles acquired	10

From April 1, 2019 to May 9, 2019, the Company completed nine acquisitions, consisting of business and asset acquisitions, for cash and option premium of \$79,616, plus contingent consideration, and working capital adjustments, if any.

FOCUS FINANCIAL PARTNERS INC.

Notes to unaudited condensed consolidated financial statements (Continued)

(In thousands, except unit data, share and per share amounts)

6. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table summarizes the change in the goodwill balances for the year ended December 31, 2018 and the three months ended March 31, 2019:

	December 31, 2018	March 31, 2019
Balance beginning of period:		
Goodwill	\$ 538,113	\$ 883,119
Cumulative impairment losses	(22,624)	(22,624)
	515,489	860,495
Goodwill acquired	347,496	84,899
Other	(2,490)	109
	<u>345,006</u>	<u>85,008</u>
Balance end of period:		
Goodwill	883,119	968,127
Cumulative impairment losses	(22,624)	(22,624)
	<u>\$ 860,495</u>	<u>\$ 945,503</u>

The following table summarizes the amortizing acquired intangible assets at December 31, 2018:

	Gross Carry Amount	Accumulated Amortization	Net Book Value
Customer relationships	\$ 1,008,186	\$ (349,125)	\$ 659,061
Management contracts	133,112	(31,911)	101,201
Other intangibles	4,402	(2,469)	1,933
Total	<u>\$ 1,145,700</u>	<u>\$ (383,505)</u>	<u>\$ 762,195</u>

The following table summarizes the amortizing acquired intangible assets at March 31, 2019:

	Gross Carry Amount	Accumulated Amortization	Net Book Value
Customer relationships	\$ 1,149,491	\$ (376,044)	\$ 773,447
Management contracts	139,298	(33,868)	105,430
Other intangibles	4,864	(2,645)	2,219
Total	<u>\$ 1,293,653</u>	<u>\$ (412,557)</u>	<u>\$ 881,096</u>

7. FAIR VALUE MEASUREMENTS

ASC Topic 820, *Fair Value Measurement* establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability, developed based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's

FOCUS FINANCIAL PARTNERS INC.

Notes to unaudited condensed consolidated financial statements (Continued)

(In thousands, except unit data, share and per share amounts)

7. FAIR VALUE MEASUREMENTS (Continued)

own assumptions about the assumptions market participants would use in pricing the asset or liability, developed based on the best information available in the circumstances.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels, as follows:

Level 1—Unadjusted price quotations in active markets for identical assets or liabilities.

Level 2—Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Significant unobservable inputs that are not corroborated by market data.

The implied fair value of the Company's First Lien Term Loan (as defined below) based on Level 2 inputs at December 31, 2018 and March 31, 2019 are as follows:

	December 31, 2018		March 31, 2019	
	Stated Value	Fair Value	Stated Value	Fair Value
First Lien Term Loan	\$ 798,985	\$ 773,018	\$ 796,978	\$ 792,993

For business acquisitions, the Company recognizes the fair value of estimated contingent consideration at the acquisition date as part of purchase price. This fair value measurement is based on Level 3 inputs.

The following table represents changes in the fair value of estimated contingent consideration for business acquisitions for the year ended December 31, 2018 and the three months ended March 31, 2019:

Balance at January 1, 2018	\$ 76,677
Additions to estimated contingent consideration	42,086
Payments of contingent consideration	(26,237)
Non-cash changes in fair value of estimated contingent consideration	6,638
Other	(259)
Balance at December 31, 2018	98,905
Additions to estimated contingent consideration	29,583
Payments of contingent consideration	(16,819)
Non-cash changes in fair value of estimated contingent consideration	7,414
Other	(41)
Balance at March 31, 2019	<u>\$ 119,042</u>

Estimated contingent consideration is included in other liabilities in the accompanying unaudited condensed consolidated balance sheets.

During the year ended December 31, 2018, the Company paid \$23,816 in cash and issued \$2,421 of restricted common units as contingent consideration associated with business acquisitions. During the

FOCUS FINANCIAL PARTNERS INC.**Notes to unaudited condensed consolidated financial statements (Continued)****(In thousands, except unit data, share and per share amounts)****7. FAIR VALUE MEASUREMENTS (Continued)**

three months ended March 31, 2019, the Company paid \$16,819 in cash as contingent consideration associated with business acquisitions.

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. The fair value of the Company's estimated contingent consideration is established using the Monte Carlo Simulation model.

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

Inputs used in the fair value measurement of estimated contingent consideration at December 31, 2018 and March 31, 2019 are summarized below:

Fair Value at December 31, 2018	Quantitative Information About Level 3 Fair Value Measurements		
	Valuation Technique	Unobservable Input	Range
\$98,905	Monte Carlo Simulation model	Forecasted growth rates	(16.2)% - 18.7%

Fair Value at March 31, 2019	Quantitative Information About Level 3 Fair Value Measurements		
	Valuation Technique	Unobservable Input	Range
\$119,042	Monte Carlo Simulation model	Forecasted growth rates	(21.7)% - 147.0%

8. CREDIT FACILITY

Focus LLC's current credit facility (the "Credit Facility") consists of a \$803,000 first lien term loan (the "First Lien Term Loan") and a \$650,000 first lien revolving credit facility (the "First Lien Revolver").

The First Lien Term Loan has a maturity date of July 2024 and requires quarterly installment repayments of approximately \$2,007. The First Lien Term Loan bears interest (at Focus LLC's option) at: (i) the London InterBank Offered Rate ("LIBOR") plus a margin of 2.50% or (ii) the lender's Base Rate (as defined in the Credit Facility) plus a margin of 1.50%.

The First Lien Revolver has a maturity date of July 2023. Up to \$30,000 of the First Lien Revolver is available for the issuance of letters of credit, subject to certain limitations. The First Lien Revolver bears interest at LIBOR plus a margin of 2.00% with step downs to 1.75%, 1.50% and 1.25% or the lender's Base Rate plus a margin of 1.00% with step downs to 0.75%, 0.50% and 0.25%, based on achievement of a specified First Lien Leverage Ratio. The First Lien Revolver unused commitment fee is 0.50% with step downs to 0.375% and 0.25% based on achievement of a specified First Lien Leverage Ratio.

Focus LLC's obligations under the Credit Facility are collateralized by the majority of Focus LLC's assets. The Credit Facility contains various customary covenants, including, but not limited to: (i) incurring additional indebtedness or guarantees, (ii) creating liens or other encumbrances on

FOCUS FINANCIAL PARTNERS INC.**Notes to unaudited condensed consolidated financial statements (Continued)****(In thousands, except unit data, share and per share amounts)****8. CREDIT FACILITY (Continued)**

property or granting negative pledges, (iii) entering into a merger or similar transaction, (iv) selling or transferring certain property and (v) declaring dividends or making other restricted payments.

Focus LLC is required to maintain a First Lien Leverage Ratio (as defined in the Credit Facility) of not more than 6.25:1.00 as of the last day of each fiscal quarter. At March 31, 2019, Focus LLC's First Lien Leverage Ratio was 3.88:1.00, which satisfied the maximum ratio of 6.25:1.00. First Lien Leverage Ratio means the ratio of amounts outstanding under the First Lien Term Loan and First Lien Revolver plus other outstanding debt obligations secured by a lien on the assets of Focus LLC (excluding letters of credit other than unpaid drawings thereunder) minus unrestricted cash and cash equivalents to Consolidated EBITDA (as defined in the Credit Facility). Focus LLC is also subject to contingent principal payments based on excess cash flow for any fiscal year if the First Lien Leverage Ratio exceeds 3.75:1.00.

The Company defers and amortizes its debt financing costs over the respective terms of the First Lien Term Loan and First Lien Revolver. The debt financing costs related to the First Lien Term Loan are recorded as a reduction of the carrying amount of the First Lien Term Loan in the unaudited condensed consolidated balance sheets. The debt financing costs related to the First Lien Revolver are recorded in debt financing costs-net in the unaudited condensed consolidated balance sheets.

The following is a reconciliation of principal amounts outstanding under the Credit Facility to borrowings under the Credit Facility recorded in the unaudited condensed consolidated balance sheets at December 31, 2018 and March 31, 2019:

	December 31, 2018	March 31, 2019
First Lien Term Loan	\$ 798,985	\$ 796,978
First Lien Revolver	40,000	290,000
Unamortized debt financing costs	(2,403)	(2,295)
Total	<u>\$ 836,582</u>	<u>\$ 1,084,683</u>

Weighted-average interest rates for outstanding borrowings were approximately 6% for the year ended December 31, 2018 and 5% for the three months ended March 31, 2019.

As of December 31, 2018 and March 31, 2019, the First Lien Revolver available unused commitment line was \$605,793 and \$354,617, respectively.

As of December 31, 2018 and March 31, 2019, Focus LLC was contingently obligated for letters of credit in the amount of \$4,207 and \$5,383, respectively, bearing interest at an annual rate of approximately 1%.

9. EQUITY**Common Stock**

Each Focus LLC common unit, together with a corresponding share of Class B common stock, and Focus LLC incentive unit (after conversion into a number of Focus LLC common units taking into account the then-current value of the common units and such incentive unit's aggregate hurdle amount) is exchangeable, pursuant to the terms and subject to the conditions set forth in the Operating

FOCUS FINANCIAL PARTNERS INC.

Notes to unaudited condensed consolidated financial statements (Continued)

(In thousands, except unit data, share and per share amounts)

9. EQUITY (Continued)

Agreement, for one share of the Company's Class A common stock, or, if either the Company or Focus LLC so elects, cash.

In March 2019, the Company issued an aggregate of 403,712 shares of Class A common stock and retired 254,441 shares of Class B common stock and 217,730 incentive units in Focus LLC and acquired 403,712 common units in Focus LLC, in each case as part of the regular quarterly exchanges offered to holders of units in Focus LLC.

Stock Options and Unvested Class A Common Stock

The following table provides information relating to the changes in the Company's stock options during the three months ended March 31, 2019:

	Stock Options	Weighted Average Exercise Price
Outstanding—January 1, 2019	1,401,276	\$ 31.34
Granted	25,000	32.78
Exercised	(6,477)	33.00
Forfeited	(21,152)	30.43
Outstanding—March 31, 2019	<u>1,398,647</u>	31.37
Vested—March 31, 2019	<u>496,537</u>	33.00

The following table provides information relating to the changes in the Company's unvested Class A common stock during the three months ended March 31, 2019:

	Unvested Class A Common Stock	Grant Date Fair Value
Outstanding—January 1, 2019	119,078	\$ 33.00
Forfeited	(909)	33.00
Outstanding—March 31, 2019	<u>118,169</u>	33.00

For the purpose of calculating equity-based compensation expense for time-based stock option awards granted during the three months ended March 31, 2019, the grant date fair value was determined through the application of the Black-Scholes model with the following weighted average assumptions:

Expected term	6.25 years
Expected stock price volatility	28%
Risk-free interest rate	2.51%
Expected dividend yield	—%
Weighted average grant date fair value	\$ 10.89

The Company recognized \$902 of compensation expense in relation to the stock options and unvested Class A common stock during the three months ended March 31, 2019.

FOCUS FINANCIAL PARTNERS INC.

Notes to unaudited condensed consolidated financial statements (Continued)

(In thousands, except unit data, share and per share amounts)

9. EQUITY (Continued)

Focus LLC Incentive Units

The following table provides information relating to the changes in Focus LLC incentive units during the three months ended March 31, 2019:

	Incentive Units	Weighted Average Hurdle Price
Outstanding—January 1, 2019	18,597,474	\$ 20.63
Exchanged	(217,730)	12.20
Forfeited	(331,038)	27.80
Outstanding—March 31, 2019	18,048,706	20.60
Vested—March 31, 2019	9,728,227	14.25

Incentive units outstanding and vested at March 31, 2019 were as follows:

Hurdle Rates	Number Outstanding	Vested Incentive Units
\$1.42	175,421	175,421
5.50	97,798	97,798
6.00	56,702	56,702
7.00	514,609	514,609
9.00	2,081,799	2,081,799
11.00	1,372,761	1,372,761
12.00	520,000	520,000
13.00	858,817	852,151
14.00	56,205	56,205
16.00	168,552	168,552
17.00	80,000	65,000
19.00	884,797	811,047
21.00	3,975,500	2,475,500
22.00	1,289,667	342,104
23.00	524,828	131,207
27.00	29,484	7,371
28.50	1,646,766	—
33.00	3,715,000	—
	18,048,706	9,728,227

The Company recorded \$3,728 and \$3,019 of non-cash equity compensation expense for incentive units during the three months ended March 31, 2018 and 2019, respectively.

Other non-cash compensation expense

During the three months ended March 31, 2018 and 2019, the Company recognized other non-cash equity compensation expense of \$126 and \$0, respectively.

FOCUS FINANCIAL PARTNERS INC.

Notes to unaudited condensed consolidated financial statements (Continued)

(In thousands, except unit data, share and per share amounts)

10. INCOME TAXES

The estimated annual effective tax rate as of March 31, 2019 was 30.2%. Income tax benefit for the three months ended March 31, 2019 is primarily related to federal, state and local income taxes imposed on the Company's allocable portion of taxable income from Focus LLC. The allocable portion of taxable income primarily differs from the net loss attributable to the Company due to permanent differences such as non-deductible equity-based compensation expense of Focus LLC.

During the three months ended March 31, 2019, there were no changes to the Company's uncertain tax positions.

11. TAX RECEIVABLE AGREEMENTS

In connection with the Reorganization Transactions and the closing of the IPO, the Company entered into two Tax Receivable Agreements ("TRAs"): one with certain entities affiliated with the Private Equity Investors and the other with certain other Existing Owners (the parties to the two agreements, collectively, the "TRA holders"). The agreements generally provide for the payment by the Company to each TRA holder of 85% of the net cash savings, if any, in U.S. federal, state and local income and franchise tax that the Company actually realizes (computed using simplifying assumptions to address the impact of state and local taxes) or is deemed to realize in certain circumstances in connection with the Reorganization Transactions and in periods after the IPO, as a result of certain increases in tax bases and certain tax benefits attributable to imputed interest. The Company will retain the benefit of the remaining 15% of these cash savings.

As of March 31, 2019, the Company had recorded a liability of \$43,075 relating to the TRA obligations. Future payments under the TRAs in respect of future exchanges of Focus LLC units for shares of Class A common stock will be in addition to the amount recorded.

12. LEASES

The Company rents office space under operating leases with various expiration dates. The Company determines if a contract contains a lease at inception. Leases with an initial term of 12 months or less, which are immaterial to the consolidated financial statements, are not recorded in the balance sheet. Rent expense for these leases is recorded on a straight-line basis over the lease term. Lease components (e.g. fixed payments typically comprised of base rent only) are accounted for separately from the non-lease components (e.g. common-area maintenance costs). The Company has a limited number of finance leases which are not material to the consolidated financial statements.

Operating lease costs, which are recorded within selling, general and administrative expenses, for the three months ended March 31, 2019 were \$9,665. Operating cash flows from operating leases were \$9,094 for the three months ended March 31, 2019. The implicit discount rates used to determine the present value of the Company's leases are not readily determinable, thus the Company uses an estimated incremental borrowing rate. The weighted average discount rate used to determine the Company's operating lease liabilities was approximately 6% at March 31, 2019. The weighted average remaining lease term at March 31, 2019 was 7.6 years.

FOCUS FINANCIAL PARTNERS INC.

Notes to unaudited condensed consolidated financial statements (Continued)

(In thousands, except unit data, share and per share amounts)

12. LEASES (Continued)

Future minimum lease commitments under operating leases as of March 31, 2019 were as follows:

<u>Period</u>	<u>Amount</u>
Nine months ended December 31, 2019	\$ 29,902
2020	37,994
2021	31,524
2022	26,664
2023	21,793
2024 and thereafter	86,001
	<u>233,878</u>
Less: present value discount	(52,281)
Operating lease liabilities at March 31, 2019	<u>\$ 181,597</u>

13. COMMITMENTS AND CONTINGENCIES

Credit Risk—The Company's broker-dealer subsidiaries clear all transactions through clearing brokers on a fully disclosed basis. Pursuant to the terms of the agreements between the Company's broker-dealer subsidiaries and their clearing brokers, the clearing brokers have the right to charge the Company's broker-dealer subsidiaries for losses that result from a counterparty's failure to fulfill its contractual obligations. This right applies to all trades executed through its clearing brokers, and therefore, the Company believes there is no maximum amount assignable to the right of the clearing brokers. Accordingly, at December 31, 2018 and March 31, 2019, the Company had recorded no liabilities in connection with this right.

In addition, the Company has the right to pursue collection or performance from the counterparties who do not perform under their contractual obligations. The Company monitors the credit standing of the clearing brokers and counterparties with which they conduct business.

The Company is exposed to credit risk for accounts receivable from clients. Such credit risk is limited to the amount of accounts receivable. The Company is also exposed to credit risk for changes in the benchmark interest rate (LIBOR or Base Rate) in connection with its Credit Facility.

The Company maintains its cash in bank depository accounts, which, at times, may exceed federally insured limits. The Company selects depository institutions based, in part, upon management's review of the financial stability of the institution. At December 31, 2018 and March 31, 2019, a significant portion of cash and cash equivalents were held at a single institution.

Contingent Consideration Arrangements—Contingent consideration is payable in the form of cash and, in some cases, equity. Since the contingent consideration to be paid is based on the growth of forecasted financial performance levels over a number of years, the Company cannot calculate the maximum contingent consideration that may be payable under these arrangements.

Legal and Regulatory Matters—In the ordinary course of business, the Company is involved in lawsuits and other claims. The Company has insurance to cover certain losses that arise in such matters; however, this insurance may not be sufficient to cover these losses. Management, after

FOCUS FINANCIAL PARTNERS INC.**Notes to unaudited condensed consolidated financial statements (Continued)****(In thousands, except unit data, share and per share amounts)****13. COMMITMENTS AND CONTINGENCIES (Continued)**

consultation with legal counsel, currently does not anticipate that the aggregate liability, if any, arising out of any existing legal matters will have a material effect on the Company's consolidated financial position, results of operations or cash flows.

From time to time, the Company's subsidiaries receive requests for information from governmental authorities regarding business activities. The Company has cooperated and plans to continue to cooperate with all governmental agencies. The Company continues to believe that the resolution of any governmental inquiry will not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Indemnifications—In the ordinary course of business, the Company enters into contracts pursuant to which it may agree to indemnify third parties in certain circumstances. The terms of these indemnities vary from contract to contract and the amount of indemnification liability, if any, cannot be determined.

Management believes that the likelihood of any liability arising under these indemnification provisions is remote. Management cannot estimate any potential maximum exposure due to both the remoteness of any potential claims and the fact that items that would be included within any such calculated claim would be beyond the control of the Company. Consequently, no liability has been recorded in the unaudited condensed consolidated balance sheets.

14. CASH FLOW INFORMATION

	Three Months Ended	
	March 31,	
	2018	2019
Supplemental disclosures of cash flow information—cash paid for:		
Interest	\$ 14,432	\$ 11,462
Income taxes	\$ 839	\$ 1,548
Supplemental non-cash cash flow information:		
Fair market value of estimated contingent consideration in connection with acquisitions	\$ 8,928	\$ 29,583
Fair market value of restricted common units in connection with acquisitions and contingent consideration	\$ 6,584	\$ —
Net tangible assets acquired in connection with business acquisitions	\$ 193	\$ 1,502
Deferred taxes and tax receivable agreements	\$ —	\$ 858
Right of use asset related to operating leases	\$ —	\$ 171,189
Lease liability related to operating leases	\$ —	\$ 181,597

FOCUS FINANCIAL PARTNERS INC.

Notes to unaudited condensed consolidated financial statements (Continued)

(In thousands, except unit data, share and per share amounts)

15. RELATED PARTIES

The Company reimburses the Company's Chief Executive Officer for certain costs and third-party payments associated with the use of his personal aircraft for Company-related business travel. The Company also pays pilot fees for such business travel flights. During the three months ended March 31, 2018 and 2019, the Company recognized expenses of \$523 and \$629 related to these reimbursements, respectively.

At March 31, 2019, affiliates of certain holders of the Company's Class A common stock and Class B common stock were lenders under the Credit Facility.

16. OTHER

During the three months ended March 31, 2019, the Company recorded a management contract buyout expense of \$1,428 related to cash consideration for the buyout of a management agreement with one of the Company's retiring principals whereby the business operations of the relevant partner firm were transitioned to one of the Company's other partner firms.

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

Unless otherwise indicated or the context requires, all references to "we," "us," "our," the "Company," "Focus Inc." and similar terms for periods prior to our initial public offering ("IPO") and related reorganization transactions (the "Reorganization Transactions") refer to Focus Financial Partners, LLC and its subsidiaries. For periods subsequent to the IPO and Reorganization Transactions, these terms refer to Focus Financial Partners Inc. and its consolidated subsidiaries. "Focus LLC" refers to Focus Financial Partners, LLC, a Delaware limited liability company and a consolidated subsidiary of ours following the IPO.

The term "partner firms" refers to our consolidated subsidiaries engaged in wealth management and related services, the businesses of which are typically managed by the principals. The term "principals" refers to the wealth management professionals who manage the businesses of our partner firms pursuant to the relevant management agreement. The term "our partnership" refers to our business and relationship with our partner firms and is not intended to describe a particular form of legal entity or a legal relationship.

The following discussion and analysis of the financial condition and results of our operations should be read in conjunction with the accompanying unaudited condensed consolidated financial statements for the three months ended March 31, 2018 and 2019.

Forward-Looking Statements

Some of the information in this Quarterly Report on Form 10-Q may contain forward-looking statements. Forward-looking statements give our current expectations, contain projections of results of operations or of financial condition, or forecasts of future events. Words such as "may," "assume," "forecast," "position," "predict," "strategy," "expect," "intend," "plan," "estimate," "anticipate," "believe," "project," "budget," "potential," "continue," "will" and similar expressions are used to identify forward-looking statements. They can be affected by assumptions used or by known or unknown risks or uncertainties. Consequently, no forward-looking statements can be guaranteed. When considering these forward-looking statements, you should keep in mind the risk factors and other cautionary statements described under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018, as filed with the Securities and Exchange Commission ("SEC") on March 28, 2019, and in our other filings with the SEC. Actual results may vary materially. You are cautioned not to place undue reliance on any forward-looking statements. You should also understand that it is not possible to predict or identify all such factors and should not consider the following list to be a complete statement of all potential risks and uncertainties. Factors that could cause our actual results to differ materially from the results contemplated by such forward-looking statements include:

- fluctuations in wealth management fees;
- our reliance on our partner firms and the principals who manage their businesses;
- our ability to make successful acquisitions;
- unknown liabilities of or poor performance by acquired businesses;
- harm to our reputation;
- our inability to facilitate smooth succession planning at our partner firms;
- our inability to compete;
- our reliance on key personnel and principals;
- our inability to attract, develop and retain talented wealth management professionals;
- our inability to retain clients following an acquisition;

[Table of Contents](#)

- write down of goodwill and other intangible assets;
- our failure to maintain and properly safeguard an adequate technology infrastructure;
- cyber-attacks;
- our inability to recover from business continuity problems;
- inadequate insurance coverage;
- the termination of management agreements by management companies;
- our inability to generate sufficient cash to service all of our indebtedness or our ability to access additional capital;
- the failure of our partner firms to comply with applicable U.S. and non-U.S. regulatory requirements and the highly regulated nature of our business;
- legal proceedings, governmental inquiries; and
- other factors discussed in this Quarterly Report on Form 10-Q.

All forward-looking statements are expressly qualified in their entirety by the foregoing cautionary statements. Our forward-looking statements speak only as of the date of this Quarterly Report or as of the date as of which they are made. Except as required by applicable law, including federal securities laws, we do not intend to update or revise any forward-looking statements.

Overview

We are a leading partnership of independent, fiduciary wealth management firms operating in the highly fragmented registered investment advisor ("RIA") industry, with a footprint of over 60 partner firms primarily in the United States. We have achieved this market leadership by positioning ourselves as the partner of choice for many firms in an industry where a number of secular trends are driving RIA consolidation. Our partner firms primarily service ultra-high net worth and high net worth individuals and families by providing highly differentiated and comprehensive wealth management services. Our partner firms benefit from our intellectual and financial resources, operating in a scaled business model with aligned interests, while retaining their entrepreneurial culture and independence.

Our partnership is comprised of trusted professionals providing comprehensive wealth management services under a largely recurring, fee-based model, which differentiates our partner firms from the traditional brokerage platforms whose revenues are largely derived from commissions. We derive a substantial majority of our revenues from wealth management fees for investment advice, financial and tax planning, consulting, tax return preparation, family office services and other services. We also generate other revenues primarily from recordkeeping and administration service fees, commissions and distribution fees and outsourced services.

We have to date, with limited exceptions, acquired substantially all of the assets of the firms we chose to partner with but only a portion of the underlying economics in order to align the principals' interests with our own objectives. To determine the acquisition price, we first estimate the operating cash flow of the business based on current and projected levels of revenue and expense, before compensation and benefits to the selling principals or other individuals who become principals. We refer to the operating cash flow of the business as Earnings Before Partner Compensation ("EBPC") and to this estimate as Target Earnings ("Target Earnings"). In economic terms, we typically purchase only 40% to 60% of the partner firm's EBPC. The purchase price is a multiple of the corresponding percentage of Target Earnings and consists of cash and equity and the right to receive contingent consideration. We refer to the corresponding percentage of Target Earnings on which we base the purchase price as Base Earnings ("Base Earnings"). We create downside protection for ourselves by

[Table of Contents](#)

retaining a cumulative preferred position in Base Earnings, with the excess of Base Earnings up to Target Earnings being retained by the principals via a management agreement. EBPC in excess of the Target Earnings is shared typically in accordance with the same economic percentages, creating an incentive for the principals to grow earnings above the Target Earnings.

Since we began revenue-generating and acquisition activities in 2006, we have created a partnership of over 60 partner firms, the substantial majority of which are RIAs registered with the SEC and built a business with revenues of \$910.9 million for the year ended December 31, 2018 and \$259.9 million for the three months ended March 31, 2019. For the year ended December 31, 2018 and the three months ended March 31, 2019, in excess of 95% of our revenues were fee-based and recurring in nature. We have established a national footprint across the United States and expanded our international footprint into the United Kingdom, Canada and Australia.

Sources of Revenue

Our partner firms provide comprehensive wealth management services under a largely recurring, fee-based model. We, solely through our partner firms, derive a substantial majority of our revenue from wealth management fees, which are comprised of fees earned from wealth management services, including investment advice, financial and tax planning, consulting, tax return preparation, family office services and other services. Fees are primarily based either on a contractual percentage of the client's assets, a flat fee, an hourly rate or a combination of such fees and are billed either in advance or arrears on a monthly, quarterly or semiannual basis. In certain cases, such wealth management fees may be subject to minimum fee levels depending on the services performed. We also generate other revenues, which primarily include recordkeeping and administration service fees, commissions and distribution fees and outsourced services. The following table summarizes our sources of revenue:

	Three Months Ended March 31,			
	2018		2019	
	Revenues	% of Total Revenues	Revenues	% of Total Revenues
		(in thousands)		
Wealth management fees	\$ 184,323	93.9%	\$ 243,084	93.5%
Other	11,906	6.1%	16,840	6.5%
Total revenues	<u>\$ 196,229</u>	<u>100.0%</u>	<u>\$ 259,924</u>	<u>100.0%</u>

During the three months ended March 31, 2019, our wealth management fees were impacted by the acquisitions of new partner firms and the growth of existing partner firms, which includes the acquisitions of wealth management practices by our existing partner firms. In the three months ended March 31, 2019, we completed acquisitions of three partner firms: Altman, Greenfield & Selvaggi, Prime Quadrant and Foster Dykema Cabot and our partner firms completed nine acquisitions, consisting of business acquisitions accounted for in accordance with Accounting Standard Codification ("ASC") Topic 805: *Business Combinations*.

See Note 5 to our unaudited condensed consolidated financial statements for additional information about our acquisitions.

For the three months ended March 31, 2019, in excess of 95% of our revenues were fee-based and recurring in nature. Although the substantial majority of our revenues are fee-based and recurring, our revenues can fluctuate due to macroeconomic factors and the overall state of the financial markets, particularly in the United States. Our partner firms' wealth management fees are primarily based either on a contractual percentage of the client's assets, a flat fee, an hourly rate or a combination of such fees and are billed either in advance or arrears on a monthly, quarterly or semiannual basis. Because of

[Table of Contents](#)

the variety of billing practices across our partner firms, the timing of any impact of short-term financial market movements on revenues will vary. Additionally, we estimate that approximately 28% of our revenues for the three months ended March 31, 2019 were not directly correlated to the financial markets. Of the 72% of our revenues that were directly correlated to the financial markets for the three months ended March 31, 2019, we estimate that approximately 71% of such revenues were generated from advance billings. These revenues are impacted by market movements and generally result in a one-quarter lagged effect on our revenues. Longer term trends in the financial markets may favorably or unfavorably impact our total revenues, but not in a linear relationship.

Operating Expenses

Our operating expenses consist of compensation and related expenses, management fees, selling, general and administrative expenses, management contract buyout, intangible amortization, non-cash changes in fair value of estimated contingent consideration and depreciation and other amortization expense.

Compensation and Related Expenses

Compensation and related expenses include salaries, wages, related employee benefits and taxes for employees at our partner firms and employees at the Focus LLC company level. Compensation and related expenses also include non-cash compensation expense associated with both Focus Inc.'s and Focus LLC's equity grants to employees and non-employees, including management company principals.

Management Fees

While we have to date, with limited exceptions, acquired substantially all of the assets of a target firm, following our acquisition of a new partner firm, the partner firm continues to be primarily managed by its principals through their 100% ownership of a new management company formed by them concurrently with the acquisition. Our operating subsidiary, the management company and the principals enter into a management agreement that provides for the payment of ongoing management fees to the management company. The terms of the management agreements are generally six years subject to automatic renewals for consecutive one-year terms, unless earlier terminated by either the management company or us in certain limited situations. Under the management agreement, the management company is entitled to management fees typically consisting of all EBPC in excess of Base Earnings up to Target Earnings, plus a percentage of EBPC in excess of Target Earnings.

We retain a cumulative preferred position in Base Earnings. To the extent earnings of an acquired business in any year are less than Base Earnings, in the following year we are entitled to receive Base Earnings together with the prior years' shortfall before any management fees are earned by the management company.

The following table provides an illustrative example of our economics, including management fees earned by the management company, for periods of projected revenues, +10% growth in revenues and -10% growth in revenues. This example assumes (i) Target Earnings of \$3.0 million; (ii) Base Earnings

[Table of Contents](#)

acquired of 60% of Target Earnings or \$1.8 million; and (iii) a percentage of earnings in excess of Target Earnings retained by the management company of 40%.

	Projected Revenues	+10% Growth in Revenues	-10% Growth in Revenues
	(dollars in thousands)		
New Partner Firm			
New partner firm revenues	\$ 5,000	\$ 5,500	\$ 4,500
Less:			
Operating expenses (excluding management fees)	(2,000)	(2,000)	(2,000)
EBPC	\$ 3,000	\$ 3,500	\$ 2,500
Base Earnings to Focus Inc. (60%)	1,800	1,800	1,800
Management fees to management company (40%)	1,200	1,200	700
EBPC in excess of Target Earnings:			
To Focus Inc. (60%)	—	300	—
To management company as management fees (40%)	—	200	—
Focus Inc.			
Focus Inc. revenues	\$ 5,000	\$ 5,500	\$ 4,500
Less:			
Operating expenses (excluding management fees)	(2,000)	(2,000)	(2,000)
Less:			
Management fees to management company	(1,200)	(1,400)	(700)
Operating income	<u>\$ 1,800</u>	<u>\$ 2,100</u>	<u>\$ 1,800</u>

As a result of our economic arrangements with the various management company entities, 100% of management fees are variable expenses.

Selling, General and Administrative

Selling, general and administrative expenses include rent, insurance premiums, professional fees, travel and entertainment and other costs.

Management Contract Buyout

Management contract buyout represents cash consideration to buyout a management agreement with one of our retiring principals whereby the business operations of the relevant partner firm were transitioned to one of our other partner firms.

Intangible Amortization

Amortization of intangibles consists of the amortization of intangibles we acquired through our various acquisitions of new partner firms and acquisitions by our partner firms.

Non-Cash Changes in Fair Value of Estimated Contingent Consideration

We have typically incorporated into our acquisition structure contingent consideration paid to the sellers upon the satisfaction of specified financial thresholds, and the purchase price for a typical acquisition is comprised of a base purchase price and the right to receive such contingent consideration in the form of earn out payments. The contingent consideration is paid upon the satisfaction of specified growth thresholds typically over a six-year period. This arrangement may result in the payment of additional purchase price consideration to the sellers for periods following the closing of an acquisition. The growth thresholds are typically tied to the compounded annual growth rate ("CAGR") of the partner firm's earnings. Earn out payments are typically payable in cash and, in some cases, equity.

[Table of Contents](#)

For business acquisitions, we recognize the fair value of estimated contingent consideration at the acquisition date as part of the consideration transferred in exchange for substantially all of the assets of the wealth management firm. The contingent consideration is remeasured to fair value at each reporting date using a Monte Carlo Simulation model until the contingency is resolved. Any changes in fair value are recognized each reporting period in non-cash changes in fair value of estimated contingent consideration in our consolidated statements of operations.

Depreciation and Other Amortization

Depreciation and other amortization expense primarily represents the benefits we received from using long-lived assets such as computers and equipment, leasehold improvements and furniture and fixtures. Those assets primarily consist of purchased fixed assets as well as fixed assets acquired through our acquisitions.

Business Acquisitions

We completed 12 business acquisitions during the three months ended March 31, 2019, consisting of both new partner firms and acquisitions by our partner firms. Such business acquisitions were accounted for in accordance with ASC Topic 805: *Business Combinations*.

The purchase price is comprised of a base purchase price and a right to receive contingent consideration in the form of earn out payments. The base purchase price typically consists of an upfront cash payment and may include equity. The contingent consideration generally consists of earn outs over a six-year period following the closing, with payment upon the satisfaction of specified growth thresholds. The growth thresholds are typically tied to the CAGR of the partner firm's earnings. The contingent consideration is typically payable in cash and, in some cases, equity.

The following table summarizes our business acquisitions for the three months ended March 31, 2019 (dollars in thousands):

Number of business acquisitions closed	12
Consideration:	
Cash due at closing	\$ 204,012
Fair market value of estimated contingent consideration	29,583
Total consideration	<u>\$ 233,595</u>

Substantially all of our acquisitions have been paid for with a combination of cash flow from operations, proceeds from the IPO, proceeds from borrowings under the Credit Facility and equity, valued at the then-fair market value.

Recent Developments

From April 1, 2019 to the date of this Quarterly Report, we completed 8 business acquisitions (accounted for in accordance with ASC Topic 805: *Business Combinations*) and 1 asset acquisition consisting of both new partner firms and acquisitions by our partner firms. The Acquired Base Earnings associated with the acquisition of the new partner firms during this period was approximately \$6.7 million. For additional information regarding Acquired Base Earnings, please see "—How We Evaluate Our Business."

In May 2019, we announced a new value add service for our partner firms that we refer to as Focus Client Solutions. Focus Client Solutions will enable our partner firms to provide their clients with a competitive array of cash and credit solutions through a third-party network of bank and non-bank lenders.

How We Evaluate Our Business

We focus on several key financial metrics in evaluating the success of our business, the success of our partner firms and our resulting financial position and operating performance. Key metrics for the three months ended March 31, 2018 and 2019 include the following:

	Three Months Ended March 31,	
	2018	2019
(dollars in thousands, except share and per share data)		
Revenue Metrics:		
Revenues	\$ 196,229	\$ 259,924
Revenue growth(1) from prior period	44.8%	32.5%
Organic revenue growth(2) from prior period	17.6%	7.7%
Management Fees Metrics (operating expense):		
Management fees	\$ 46,300	\$ 57,006
Management fees growth(3) from prior period	39.3%	23.1%
Organic management fees growth(4) from prior period	24.5%	1.8%
Adjusted EBITDA Metrics:		
Adjusted EBITDA(5)	\$ 44,221	\$ 54,514
Adjusted EBITDA growth(5) from prior period	56.8%	23.3%
Adjusted Net Income Metrics:		
Adjusted Net Income(5)	\$ 25,456	\$ 35,714
Adjusted Net Income growth(5) from prior period	38.8%	40.3%
Adjusted Net Income Per Share Metrics:		
Adjusted Net Income Per Share(5)	\$ 0.35	\$ 0.47
Adjusted Net Income Per Share growth(5) from prior period	38.8%	34.3%
Adjusted Shares Outstanding(5)	71,843,916	76,793,979
Other Metrics:		
Acquired Base Earnings(6)	\$ 2,750	\$ 11,913
Number of partner firms at period end(7)	52	60

- (1) Represents period-over-period growth in our GAAP revenue.
- (2) Organic revenue growth represents the period-over-period growth in revenue related to partner firms, including growth related to acquisitions of wealth management practices and customer relationships by our partner firms and partner firms that have merged, that for the entire periods presented, are included in our consolidated statements of operations for each of the entire periods presented. We believe these growth statistics are useful in that they present full-period revenue growth of partner firms on a "same store" basis exclusive of the effect of the partial period results of partner firms that are acquired during the comparable periods.
- (3) The terms of our management agreements entitle the management companies to management fees typically consisting of all EBPC in excess of Base Earnings up to Target Earnings, plus a percentage of any EBPC in excess of Target Earnings. Management fees growth represents the period-over-period growth in GAAP management fees earned by management companies. While an expense, we believe that growth in management fees reflect the strength of the partnership.
- (4) Organic management fees growth represents the period-over-period growth in management fees earned by management companies related to partner firms, including growth related to acquisitions of wealth management practices and customer relationships by our partner firms and partner firms that have merged, that for the entire periods presented, are included in our consolidated statements of operations for each of the entire periods presented. We believe that these growth

[Table of Contents](#)

statistics are useful in that they present full-period growth of management fees on a "same store" basis exclusive of the effect of the partial period results of partner firms that are acquired during the comparable periods.

- (5) For additional information regarding Adjusted EBITDA, Adjusted Net Income, Adjusted Net Income Per Share and Adjusted Shares Outstanding, including a reconciliation of Adjusted EBITDA, Adjusted Net Income and Adjusted Net Income Per Share to the most directly comparable GAAP financial measure, please read "—Adjusted EBITDA" and "—Adjusted Net Income and Adjusted Net Income Per Share".
- (6) The terms of our management agreements entitle the management companies to management fees typically consisting of all future EBPC of the acquired wealth management firm in excess of Base Earnings up to Target Earnings, plus a percentage of any EBPC in excess of Target Earnings. Acquired Base Earnings is equal to our retained cumulative preferred position in Base Earnings. We are entitled to receive these earnings notwithstanding any earnings that we are entitled to receive in excess of Target Earnings. Base Earnings may change in future periods for various business or contractual matters. For example, from time to time when a partner firm consummates an acquisition, the management agreement among the partner firm, the management company and the principals is amended to adjust Base Earnings and Target Earnings to reflect the projected post-acquisition earnings of the partner firm.
- (7) Represents the number of partner firms on the last day of the period presented. The number includes new partner firms acquired during the period reduced by any partner firms that merged with existing partner firms prior to the last day of the period.

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP measure. Adjusted EBITDA is defined as net income (loss) excluding interest income, interest expense, income tax expense (benefit), amortization of debt financing costs, intangible amortization and impairments, if any, depreciation and other amortization, non-cash equity compensation expense, non-cash changes in fair value of estimated contingent consideration, gain on sale of investment, loss on extinguishment of borrowings, other expense/income, net, other one-time transaction expenses, and management contract buyout, if any. We believe that Adjusted EBITDA, viewed in addition to and not in lieu of, our reported GAAP results, provides additional useful information to investors regarding our performance and overall results of operations for various reasons, including the following:

- non-cash equity grants made to employees or non-employees at a certain price and point in time do not necessarily reflect how our business is performing at any particular time; stock-based compensation expense is not a key measure of our operating performance;
- contingent consideration or earn outs can vary substantially from company to company and depending upon each company's growth metrics and accounting assumption methods; the non-cash changes in fair value of estimated contingent consideration is not considered a key measure in comparing our operating performance; and
- amortization expenses can vary substantially from company to company and from period to period depending upon each company's financing and accounting methods, the fair value and average expected life of acquired intangible assets and the method by which assets were acquired; the amortization of intangible assets obtained in acquisitions are not considered a key measure in comparing our operating performance.

We use Adjusted EBITDA:

- as a measure of operating performance;

[Table of Contents](#)

- for planning purposes, including the preparation of budgets and forecasts;
- to allocate resources to enhance the financial performance of our business; and
- to evaluate the effectiveness of our business strategies.

Adjusted EBITDA does not purport to be an alternative to net income (loss) or cash flows from operating activities. The term Adjusted EBITDA is not defined under GAAP, and Adjusted EBITDA is not a measure of net income (loss), operating income or any other performance or liquidity measure derived in accordance with GAAP. Therefore, Adjusted EBITDA has limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect all cash expenditures, future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, working capital needs; and
- Adjusted EBITDA does not reflect the interest expense on our debt or the cash requirements necessary to service interest or principal payments.

In addition, Adjusted EBITDA can differ significantly from company to company depending on strategic decisions regarding capital structure, the tax jurisdictions in which companies operate and capital investments. We compensate for these limitations by relying also on the GAAP results and using Adjusted EBITDA as supplemental information.

Set forth below is a reconciliation of net loss to Adjusted EBITDA for the three months ended March 31, 2018 and 2019:

	For the Three Months	
	Ended March 31,	
	2018	2019
	(dollars in thousands)	
Net loss	\$ (12,054)	\$ (2,828)
Interest income	(142)	(197)
Interest expense	14,272	12,859
Income tax expense (benefit)	1,176	(1,221)
Amortization of debt financing costs	959	782
Intangible amortization	19,494	28,741
Depreciation and other amortization	1,882	2,313
Non-cash equity compensation expense	3,854	3,921
Non-cash changes in fair value of estimated contingent consideration	6,371	7,414
Gain on sale of investment	(5,509)	—
Loss on extinguishment of borrowings	14,011	—
Other expense (income), net	(93)	236
Management contract buyout	—	1,428
Other one-time transaction expenses	—	1,066
Adjusted EBITDA	<u>\$ 44,221</u>	<u>\$ 54,514</u>

Adjusted Net Income and Adjusted Net Income Per Share

We analyze our performance using Adjusted Net Income and Adjusted Net Income Per Share. Adjusted Net Income and Adjusted Net Income Per Share are non-GAAP measures. We define

[Table of Contents](#)

Adjusted Net Income as net income (loss) excluding income tax expense (benefit), amortization of debt financing costs, intangible amortization and impairments, if any, non-cash equity compensation expense, non-cash changes in fair value of estimated contingent consideration, gain on sale of investment, loss on extinguishment of borrowings, management contract buyout, if any, and other one-time transaction expenses. The calculation of Adjusted Net Income also includes adjustments to reflect (i) a pro forma 27% income tax rate assuming all earnings of Focus LLC were recognized by Focus Inc. and no earnings were attributable to non-controlling interests and (ii) tax adjustments from intangible asset related income tax benefits from acquisitions based on a pro forma 27% tax rate.

Adjusted Net Income Per Share for the three months ended March 31, 2019 is calculated by dividing Adjusted Net Income by the Adjusted Shares Outstanding. Adjusted Shares Outstanding for the three months ended March 31, 2019 includes: (i) the weighted average shares of Class A common stock outstanding during the period, (ii) the weighted average incremental shares of Class A common stock related to stock options and unvested Class A common stock, if any, outstanding during the period, (iii) the weighted average number of Focus LLC common units outstanding during the period (assuming that 100% of such Focus LLC common units have been exchanged for Class A common stock) and (iv) the weighted average number of common unit equivalents of Focus LLC vested and unvested incentive units outstanding during the period based on the closing price of our Class A common stock on the last trading day of the period (assuming that 100% of such Focus LLC common units have been exchanged for Class A common stock).

Adjusted Net Income Per Share for the periods prior to July 30, 2018 is calculated by dividing Adjusted Net Income by the Adjusted Shares Outstanding. Adjusted Shares Outstanding for the periods prior to July 30, 2018 was 71,843,916 and includes all vested and unvested shares of Class A common stock issued in connection with the IPO and Reorganization Transactions, assumes that all vested non-compensatory stock options and unvested compensatory stock options outstanding at the closing of the IPO have been exercised (assuming vesting of unvested compensatory stock options and a then-current value of the Class A common stock equal to the \$33.00 IPO price) and assumes that 100% of the Focus LLC common units and vested and unvested incentive units outstanding at the closing of the IPO have been exchanged for Class A common stock (assuming vesting of the unvested incentive units and a then-current value of the Focus LLC common units equal to the \$33.00 IPO price).

We believe that Adjusted Net Income and Adjusted Net Income Per Share, viewed in addition to and not in lieu of, our reported GAAP results, provide additional useful information to investors regarding our performance and overall results of operations for various reasons, including the following:

- non-cash equity grants made to employees or non-employees at a certain price and point in time do not necessarily reflect how our business is performing at any particular time; stock-based compensation expense is not a key measure of our operating performance;
- contingent consideration or earn outs can vary substantially from company to company and depending upon each company's growth metrics and accounting assumption methods; the non-cash changes in fair value of estimated contingent consideration is not considered a key measure in comparing our operating performance; and
- amortization expenses can vary substantially from company to company and from period to period depending upon each company's financing and accounting methods, the fair value and average expected life of acquired intangible assets and the method by which assets were acquired; the amortization of intangible assets obtained in acquisitions are not considered a key measure in comparing our operating performance.

[Table of Contents](#)

Adjusted Net Income and Adjusted Net Income Per Share do not purport to be an alternative to net income (loss) or cash flows from operating activities. The terms Adjusted Net Income and Adjusted Net Income Per Share are not defined under GAAP, and Adjusted Net Income and Adjusted Net Income Per Share are not a measure of net income (loss), operating income or any other performance or liquidity measure derived in accordance with GAAP. Therefore, Adjusted Net Income and Adjusted Net Income Per Share have limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- Adjusted Net Income and Adjusted Net Income Per Share do not reflect all cash expenditures, future requirements for capital expenditures or contractual commitments;
- Adjusted Net Income and Adjusted Net Income Per Share do not reflect changes in, or cash requirements for, working capital needs; and
- Other companies in the financial services industry may calculate Adjusted Net Income and Adjusted Net Income Per Share differently than we do, limiting its usefulness as a comparative measure.

In addition, Adjusted Net Income and Adjusted Net Income Per Share can differ significantly from company to company depending on strategic decisions regarding capital structure, the tax jurisdictions in which companies operate and capital investments. We compensate for these limitations by relying also on the GAAP results and use Adjusted Net Income and Adjusted Net Income Per Share as supplemental information.

[Table of Contents](#)

Set forth below is a reconciliation of net loss to Adjusted Net Income and Adjusted Net Income Per Share for the three months ended March 31, 2018 and 2019:

	Three Months Ended	
	March 31,	
	2018	2019
	(in thousands, except share and per share data)	
Net loss	\$ (12,054)	\$ (2,828)
Income tax expense (benefit)	1,176	(1,221)
Amortization of debt financing costs	959	782
Intangible amortization	19,494	28,741
Non-cash equity compensation expense	3,854	3,921
Non-cash changes in fair value of estimated contingent consideration	6,371	7,414
Gain on sale of investment	(5,509)	—
Loss on extinguishment of borrowings	14,011	—
Management contract buyout	—	1,428
Other one-time transaction expenses(1)	—	1,066
Subtotal	\$ 28,302	\$ 39,303
Pro forma income tax expense (27%)(2)	(7,641)	(10,612)
Tax Adjustments(2)(3)	4,795	7,023
Adjusted Net Income	\$ 25,456	\$ 35,714
Adjusted Shares Outstanding(4)	71,843,916	76,793,979
Adjusted Net Income Per Share	\$ 0.35	\$ 0.47
Calculation of Adjusted Shares Outstanding:		
Weighted average shares of Class A common stock outstanding—basic(5)	—	46,211,599
Adjustments:		
Shares of Class A common stock issued in connection with the IPO and Reorganization Transactions(6)	42,529,651	—
Weighted average incremental shares of Class A common stock related to stock options and unvested Class A common stock (7)	—	7,855
Weighted average Focus LLC common units outstanding(8)	22,499,665	22,783,692
Weighted average common unit equivalent of Focus LLC incentive units outstanding(9)	6,814,600	7,790,833
Adjusted Shares Outstanding(4)	71,843,916	76,793,979

- (1) During the three months ended March 31, 2019, relates to one-time expenses related to (a) Loring Ward severance cash compensation of \$280, which were recorded in compensation and related expenses and (b) transaction expenses of \$786, which were recorded in selling, general and administrative expenses, associated with the acquisition of Loring Ward.
- (2) For periods ended prior to the closing of the IPO and the consummation of the Reorganization Transactions on July 30, 2018, certain tax related adjustments are being made for comparative purposes only.
- (3) As of March 31, 2019, estimated tax adjustments from intangible asset related income tax benefits from closed acquisitions based on a pro forma 27% tax rate for the next 12 months is \$29,157.
- (4) For historical periods prior to the closing of the IPO and consummation of the related reorganization transactions on July 30, 2018, the Adjusted Shares Outstanding are deemed to be outstanding for comparative purposes only.

[Table of Contents](#)

- (5) Represents our GAAP weighted average Class A common stock outstanding—basic.
- (6) The issuance of Class A common stock that occurred upon closing of the IPO and the consummation of the Reorganization Transactions on July 30, 2018 is assumed to have occurred as of January 1, 2018 for comparative purposes.
- (7) The incremental shares for the three months ended March 31, 2019 related to stock options and unvested Class A common stock as calculated using the treasury stock method were not included in the calculation of the GAAP weighted average shares of Class A common stock—diluted as the result would have been anti-dilutive.
- (8) Assumes that 100% of the Focus LLC common units were exchanged for Class A common stock.
- (9) Assumes that 100% of the vested and unvested Focus LLC incentive units were converted into Focus LLC common units based on the closing price of our Class A common stock at the end of the respective period and such Focus LLC common units were exchanged for Class A common stock. For the periods ending prior to July 30, 2018, the conversion to Focus LLC common units was based on the \$33.00 IPO price.

Factors Affecting Comparability

Our future results of operations may not be comparable to our historical results of operations, principally for the following reasons:

Tax Treatment

As a flow-through entity, Focus LLC is generally not and has not been subject to U.S. federal and certain state income taxes at the entity level, although it has been subject to the New York City Unincorporated Business Tax. Instead, for U.S. federal and certain state income tax purposes, taxable income was and is passed through to its unitholders, which, after the IPO on July 30, 2018, now includes Focus Inc. Focus Inc. is subject to U.S. federal and certain state income taxes applicable to corporations. Accordingly, our effective tax rate, and the absolute dollar amount of our tax expense, has increased as a result of the IPO.

Public Company Expenses

We expect our operating expenses to increase as a result of being a publicly traded company, including annual and quarterly report preparation, tax return preparation, independent auditor fees, investor relations activities, transfer agent fees, incremental director and officer liability insurance costs and independent director compensation. We also expect our accounting, legal, tax and personnel-related expenses to increase as we supplement our compliance and governance functions, maintain and review internal controls over financial reporting and prepare and distribute periodic reports as required by the rules and regulations of the SEC.

Results of Operations**Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2019**

The following discussion presents an analysis of our results of operations for the three months ended March 31, 2018 and 2019. Where appropriate, we have identified specific events and changes that affect comparability or trends and, where possible and practical, have quantified the impact of such items.

	For the Three Months Ended March 31,		\$ Change	% Change
	2018	2019		
	(dollars in thousands)			
Revenues:				
Wealth management fees	\$ 184,323	\$ 243,084	\$ 58,761	31.9%
Other	11,906	16,840	4,934	41.4%
Total revenues	<u>196,229</u>	<u>259,924</u>	<u>63,695</u>	<u>32.5%</u>
Operating expenses:				
Compensation and related expenses	73,349	101,448	28,099	38.3%
Management fees	46,300	57,006	10,706	23.1%
Selling, general and administrative	36,287	52,257	15,970	44.0%
Management contract buyout	—	1,428	1,428	*
Intangible amortization	19,494	28,741	9,247	47.4%
Non-cash changes in fair value of estimated contingent consideration	6,371	7,414	1,043	16.4%
Depreciation and other amortization	1,882	2,313	431	22.9%
Total operating expenses	<u>183,683</u>	<u>250,607</u>	<u>66,924</u>	<u>36.4%</u>
Income from operations	<u>12,546</u>	<u>9,317</u>	<u>(3,229)</u>	<u>(25.7)%</u>
Other income (expense):				
Interest income	142	197	55	38.7%
Interest expense	(14,272)	(12,859)	1,413	9.9%
Amortization of debt financing costs	(959)	(782)	177	18.5%
Gain on sale of investment	5,509	—	(5,509)	*
Loss on extinguishment of borrowings	(14,011)	—	14,011	*
Other income (expense)—net	93	(236)	(329)	*
Income from equity method investments	74	314	240	*
Total other expense—net	<u>(23,424)</u>	<u>(13,366)</u>	<u>10,058</u>	<u>42.9%</u>
Loss before income tax	<u>(10,878)</u>	<u>(4,049)</u>	<u>6,829</u>	<u>62.8%</u>
Income tax expense (benefit)	1,176	(1,221)	2,397	203.8%
Net loss	<u>\$ (12,054)</u>	<u>\$ (2,828)</u>	<u>\$ 9,226</u>	<u>76.5%</u>

* Not meaningful

Revenues

Wealth management fees increased \$58.8 million, or 31.9%, for the three months ended March 31, 2019 compared to the three months ended March 31, 2018. New partner firms added subsequent to the three months ended March 31, 2018 that are included in our results of operations for the three months ended March 31, 2019 include Bartlett Wealth Management, Campbell Deegan Financial, Nigro Karlin Segal Feldstein & Bolno, Asset Advisors Investment Management, Edge Capital Group, Vista Wealth

[Table of Contents](#)

Management, Altman, Greenfield & Selvaggi, Prime Quadrant and Foster Dykema Cabot. These new partner firms contributed approximately \$44.9 million in revenue during the three months ended March 31, 2019. The balance of the increase of \$13.9 million was due to the revenue growth at our existing partner firms associated with wealth management services and partner firm-level acquisitions and a full period of revenue recognized during the three months ended March 31, 2019 for partner firms that were acquired during the three months ended March 31, 2018.

Other revenues increased \$4.9 million, or 41.4%, for the three months ended March 31, 2019 compared to the three months ended March 31, 2018. The increase was due primarily to \$3.5 million from new partner firms principally related to outsourced services revenue.

Operating Expenses

Compensation and related expenses increased \$28.1 million, or 38.3%, in the three months ended March 31, 2019 compared to the three months ended March 31, 2018. The increase related to new partner firms was \$19.2 million. The balance of the increase of \$8.9 million was due to an increase in salaries and related expense, in part the result of a full period of expense recognized during the three months ended March 31, 2019 for partner firms that were acquired during the three months ended March 31, 2018 and partner firm-level acquisitions.

Management fees increased \$10.7 million, or 23.1%, for the three months ended March 31, 2019 compared to the three months ended March 31, 2018. The increase related to the new partner firms was \$9.8 million. Management fees are variable and a function of earnings during the period. The balance of the increase of \$0.9 million was due to the increase in earnings during the three months ended March 31, 2019 compared to the three months March 31, 2018, in part the result of a full period of earnings recognized during the three months ended March 31, 2019 for partner firms that were acquired during the three months ended March 31, 2018 as well as a result of new partner promotions and partner firm-level acquisitions.

Selling, general and administrative expenses increased \$16.0 million, or 44.0%, for the three months ended March 31, 2019 compared to the three months ended March 31, 2018. The increase related to new partner firms was \$6.9 million. The balance of the increase of \$9.1 million was in part the result of a full period of expense recognized during the three months ended March 31, 2019 for partner firms that were acquired during the three months ended March 31, 2018 and in part due to an increase in expenses related to rent expense, information technology, acquisition costs, professional fees and travel related to the growth of our existing partner firms and our acquisition of new partner firms and partner firm-level acquisitions.

Management contract buyout of \$1.4 million for the three months ended March 31, 2019 was related to cash consideration for the buyout of a management agreement with one of our retiring principals whereby the business operations of the relevant partner firm were transitioned to one of our other partner firms.

Intangible amortization increased \$9.2 million, or 47.4%, for the three months ended March 31, 2019 compared to the three months ended March 31, 2018. The increase related to new partner firms was \$5.8 million. The balance of the increase of \$3.4 million was due to a full period of expense recognized during the three months ended March 31, 2019 for partner firms that were acquired during the three months ended March 31, 2018 and partner firm-level acquisitions.

Non-cash changes in fair value of estimated contingent consideration increased \$1.0 million, or 16.4%, for the three months ended March 31, 2019 compared to the three months ended March 31, 2018. During the three months ended March 31, 2019, the probability that certain contingent consideration payments would be achieved increased resulting in an increase in the fair value of the contingent consideration liability.

[Table of Contents](#)

Depreciation and other amortization expense increased \$0.4 million, or 22.9%, for the three months ended March 31, 2019 compared to the three months ended March 31, 2018. The increase was related to a full period of depreciation and amortization for fixed assets acquired in 2018.

Interest Expense

Interest expense decreased \$1.4 million, or 9.9%, for the three months ended March 31, 2019 compared to the three months ended March 31, 2018. The decrease was related to the repayment of our \$207.0 million Second Lien Term Loan in connection with our IPO in July 2018, partially offset by higher borrowings under our First Lien Revolver due to acquisition activity.

Income Tax Expense (Benefit)

Income tax expense decreased \$2.4 million, or 203.8%, for the three months ended March 31, 2019 compared to the three months ended March 31, 2018. For the three months ended March 31, 2019, we recorded a tax benefit of \$1.2 million based on the estimated annual effective tax rate of 30.2%. The estimated annual effective tax rate is primarily related to federal, state and local income taxes imposed on Focus Inc.'s allocable portion of taxable income from Focus LLC as a result of the IPO and Reorganization Transactions.

Liquidity and Capital Resources

Sources of Liquidity

During the three months ended March 31, 2019, we met our cash and liquidity needs primarily through cash generated by our operations and borrowings under the Credit Facility. Over the next twelve months, and in the longer term, we expect that our cash and liquidity needs will continue to be met by cash generated by our ongoing operations as well as the Credit Facility, especially for acquisition activities. If our acquisition activity continues at an accelerated pace, or for larger acquisition opportunities, we may decide to issue equity either as consideration or in an offering. Our ongoing sources of cash will primarily consist of wealth management fees. We will primarily use cash flow from operations to pay compensation and related expenses, management fees, selling, general and administrative expenses, income taxes and debt service. For information regarding the Credit Facility, please read "—Credit Facilities."

Tax Receivable Agreements

In July 2018, in connection with the closing of the IPO, Focus Inc. entered into two Tax Receivable Agreements with TRA Holders. The agreements generally provide for the payment by Focus Inc. to each TRA holder of 85% of the net cash savings, if any, in U.S. federal, state and local income and franchise tax that Focus Inc. actually realizes (computed using simplifying assumptions to address the impact of state and local taxes) or is deemed to realize in certain circumstances in periods after the IPO as a result of certain increases in tax basis and certain tax benefits attributable to imputed interest. Focus Inc. will retain the benefit of the remaining 15% of these cash savings.

The payment obligations under the Tax Receivable Agreements are Focus Inc.'s obligations and not obligations of Focus LLC, and we expect that such payments required to be made under the Tax Receivable Agreements will be substantial. Estimating the amount and timing of payments that may become due under the Tax Receivable Agreements is by its nature imprecise. For purposes of the Tax Receivable Agreements, cash savings in tax generally are calculated by comparing Focus Inc.'s actual tax liability (determined by using the actual applicable U.S. federal income tax rate and an assumed combined state and local income and franchise tax rate) to the amount Focus Inc. would have been required to pay had it not been able to utilize any of the tax benefits subject to the Tax Receivable Agreements. As of March 31, 2019, we had recorded a liability of approximately \$43.1 million relating

[Table of Contents](#)

to the TRA obligations. Future payments under the Tax Receivable Agreements in respect of future exchanges of Focus LLC units for shares of Class A common stock will be in addition to this amount.

The actual increases in tax basis, as well as the amount and timing of any payments under the Tax Receivable Agreements, will vary depending upon a number of factors, including the timing of any redemption of units, the price of our Class A common stock at the time of each redemption, the extent to which such redemptions are taxable transactions, the amount of Focus LLC's assets that consist of equity in entities taxed as corporations at the time of each redemption, the amount and timing of the taxable income we generate in the future, the U.S. federal income tax rates then applicable and the portion of the payments under the Tax Receivable Agreements that constitute imputed interest or give rise to depreciable or amortizable tax basis.

The foregoing amount of expected future payments to TRA holders is an estimate and the actual payments could differ materially. It is possible that future transactions or events could increase or decrease the actual tax benefits realized and the corresponding payments under the Tax Receivable Agreements as compared to the foregoing estimates. Moreover, there may be a negative impact on our liquidity if, as a result of timing discrepancies or otherwise, (i) the payments under the Tax Receivable Agreements exceed the actual benefits realized in respect of the tax attributes subject to the Tax Receivable Agreements and/or (ii) distributions to Focus Inc. by Focus LLC are not sufficient to permit Focus Inc. to make payments under the Tax Receivable Agreements after it has paid its taxes and other obligations.

The payments under the Tax Receivable Agreements will not be conditioned upon a TRA holder's having a continued ownership interest in either Focus Inc. or Focus LLC.

Cash Flows

The following table presents information regarding our cash flows and cash and cash equivalents for the three months ended March 31, 2018 and 2019:

	Three Months Ended		\$ Change	% Change
	March 31,			
	2018	2019		
	(dollars in thousands)			
Cash provided by (used in):				
Operating activities	\$ 12,725	\$ 15,913	\$ 3,188	25.1%
Investing activities	(31,243)	(205,269)	(174,026)	557.0%
Financing activities	(4,998)	239,905	244,903	*
Cash and cash equivalents—end of period	27,949	83,779	55,830	199.8%

* Not meaningful

Operating Activities

Net cash provided by operating activities includes net loss adjusted for non-cash expenses such as intangible amortization, depreciation and other amortization, amortization of debt financing costs, non-cash equity compensation expense, non-cash changes in fair value of estimated contingent consideration, other non-cash items and changes in cash resulting from changes in operating assets and liabilities. Operating assets and liabilities include receivables from our clients, prepaid expenses and other assets, accounts payable and accrued expenses, deferred revenues and other assets and liabilities.

Net cash provided by operating activities increased \$3.2 million, or 25.1%, for the three months ended March 31, 2019 compared to the three months ended March 31, 2018. The increase was

[Table of Contents](#)

primarily due to an increase in income and non-cash items of approximately \$5.3 million, offset partially by additional cash used for operating assets and liabilities of \$2.1 million.

Investing Activities

Net cash used in investing activities increased \$174.0 million, or 557.0%, for the three months ended March 31, 2019 compared to the three months ended March 31, 2018. The increase was primarily due to an increase of \$177.9 million in cash paid for acquisitions and contingent consideration offset in part by a decrease in other investing activities of \$3.4 million during the three months ended March 31, 2019 compared to the three months ended March 31, 2018.

Financing Activities

Net cash provided by financing activities for the three months ended March 31, 2019 increased \$244.9 million, compared to the three months ended March 31, 2018. The increase was primarily due to an increase in net borrowings made under the Credit Facility of \$250.0 million during the three months ended March 31, 2019, primarily offset by an increase in contingent consideration paid of \$5.5 million during the three months ended March 31, 2019 compared to the three months ended March 31, 2018.

Contractual Obligations

There have been no material changes to our contractual obligations previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Credit Facilities

We currently have a Credit Facility consisting of a \$803.0 million First Lien Term Loan and a \$650.0 million First Lien Revolver.

The First Lien Term Loan has a maturity date of July 2024 and requires quarterly installment repayments of approximately \$2.0 million. The First Lien Term Loan bears interest (at our option) at: (i) the LIBOR plus a margin of 2.50% or (ii) the lender's Base Rate (as defined in the Credit Facility) plus a margin of 1.50%.

The First Lien Revolver has a maturity date of July 2023. Up to \$30.0 million of the First Lien Revolver is available for the issuance of letters of credit, subject to certain limitations. The First Lien Revolver bears interest at LIBOR plus a margin of 2.00% with step downs to 1.75%, 1.50% and 1.25% or the lender's Base Rate plus a margin of 1.00% with step downs to 0.75%, 0.50% and 0.25%, based on achievement of a specified First Lien Leverage Ratio. The First Lien Revolver unused commitment fee is 0.50% with step downs to 0.375% and 0.25% based on achievement of a specified First Lien Leverage Ratio.

Our obligations under the Credit Facility are collateralized by the majority of our assets. The Credit Facility contains various customary covenants, including, but not limited to: (i) incurring additional indebtedness or guarantees, (ii) creating liens or other encumbrances on property or granting negative pledges, (iii) entering into a merger or similar transaction, (iv) selling or transferring certain property and (v) declaring dividends or making other restricted payments.

We are required to maintain a First Lien Leverage Ratio (as defined in the Credit Agreement) of not more than 6.25:1.00 as of the last day of each fiscal quarter. At March 31, 2019, our First Lien Leverage Ratio was 3.88:1.00, which satisfied the maximum ratio of 6.25:1.00. First Lien Leverage

[Table of Contents](#)

Ratio means the ratio of amounts outstanding under the First Lien Term Loan and First Lien Revolver plus other outstanding debt obligations secured by a lien on the assets of Focus LLC (excluding letters of credit other than unpaid drawings thereunder) minus unrestricted cash and cash equivalents to Consolidated EBITDA (as defined in the Credit Facility). Focus LLC is also subject to contingent principal payments based on excess cash flow for any fiscal year if the First Lien Leverage Ratio exceeds 3.75:1.00.

We defer and amortize our debt financing costs over the respective terms of the First Lien Term Loan and First Lien Revolver. The debt financing costs related to the First Lien Term Loan are recorded as reduction of the carrying amount of the First Lien Term Loan in the unaudited condensed consolidated balance sheets. The debt financing costs related to the First Lien Revolver are recorded in debt financing costs-net in the unaudited condensed consolidated balance sheets.

At March 31, 2019, outstanding stated value borrowings under the Credit Facility were approximately \$1.1 billion. The weighted-average interest rate for outstanding borrowings was approximately 5% for the three months ended March 31, 2019. As of March 31, 2019, the First Lien Revolver available unused commitment line was \$354.6 million. At March 31, 2019, we had outstanding letters of credit in the amount of \$5.4 million bearing interest at an annual rate of approximately 1%.

Critical Accounting Policies

As of March 31, 2019, there have been no significant changes to our critical accounting policies previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018.

Recent Accounting Pronouncements

The effects of new accounting pronouncements are discussed in the notes to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market Risk

Our exposure to market risk is primarily related to our partner firms' wealth management services. For the three months ended March 31, 2019, over 95% of our revenues were fee-based and recurring in nature. The substantial majority of our revenues are derived from the wealth management fees charged by our partner firms for providing clients with investment advice, financial and tax planning, consulting, tax return preparation, family office services and other services. The majority of our wealth management fees are based on the value of the client assets and we expect those fees to increase over time as the assets increase. A decrease in the aggregate value of client assets across our partner firms may cause our revenue and income to decline.

Interest Rate Risk

Interest payable on our Credit Facility is variable. Interest rate changes will therefore affect the amount of our interest payments, future earnings and cash flows. As of March 31, 2019, we had total stated value borrowings outstanding under our Credit Facility of approximately \$1.1 billion. If LIBOR based interest rates increased by 1.0% on this amount, our interest expense for the three months ended March 31, 2019 would have increased by approximately \$2.7 million.

Item 4. Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and

[Table of Contents](#)

procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of March 31, 2019. Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in the reports we file or submit under the Exchange Act 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 management, including the principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure. Based on such evaluation, our principal executive officer and principal financial officer concluded that, as of March 31, 2019, our disclosure controls and procedures were effective, at the reasonable assurance level. Any controls and procedures, no matter how well designed and operated can only provide reasonable assurance of achieving the desired control objective and management necessarily applies its judgment in evaluating the cost-benefit relationship of all possible controls and procedures.

PART II: OTHER INFORMATION

Item 1. Legal Proceedings

We are, from time to time, involved in various legal claims and regulatory matters arising out of our operations in the normal course of business. After consultation with legal counsel, we do not believe that the resolutions of any such matters we are currently involved in, individually or in the aggregate, will have a material adverse impact on our financial condition, results of operations or cash flows. However, we can provide no assurance that any pending or future matters will not have a material effect on our financial condition, results of operations or cash flows in future reporting periods.

From time to time, our partner firms receive requests for information from governmental authorities regarding business activities. We have cooperated and plan to continue to cooperate with all governmental agencies. We continue to believe that the resolution of any governmental inquiry will not have a material impact on our financial condition, results of operations or cash flows.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended March 31, 2019, we issued an aggregate of 403,712 shares of our Class A common stock and retired 254,441 shares of our Class B common stock and 217,730 incentive units in Focus LLC and acquired 403,712 common units in Focus LLC, in each case as part of our regular quarterly exchanges offered to holders of units in Focus LLC.

Each Focus LLC common unit, together with a corresponding share of Class B common stock, and Focus LLC incentive unit (after conversion into a number of common units taking into account the then-current value of the common units and such incentive unit's aggregate hurdle amount) is exchangeable, pursuant to the terms and subject to the conditions set forth in the Operating Agreement, for one share of our Class A common stock, or, if either we or Focus LLC so elects, cash.

The issuance of such securities was made in reliance upon an exemption from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 4(a)(2) thereof.

Item 6. Exhibits

<u>Exhibit Number</u>	<u>Description</u>
3.1	Amended and Restated Certificate of Incorporation of Focus Financial Partners Inc.(1)
3.2	Amended and Restated Bylaws of Focus Financial Partners Inc.(1)
10.1*	Amendment No. 1 to the Fourth Amended and Restated Operating Agreement of Focus Financial Partners, LLC
10.2*	Indemnification Agreement (Joseph Feliciani, Jr.)
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.NS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document

[Table of Contents](#)

Exhibit Number	Description
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document

* Filed or furnished herewith.

(1) Incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 001-38604) filed with the SEC on July 31, 2018.

**AMENDMENT NO. 1
TO THE
FOURTH AMENDED AND RESTATED OPERATING AGREEMENT
OF
FOCUS FINANCIAL PARTNERS, LLC**

This Amendment No. 1 (this “**Amendment**”) to the Fourth Amended and Restated Operating Agreement, dated as of March 6, 2019 (the “**Agreement**”), of Focus Financial Partners, LLC, a Delaware limited liability company (the “**Company**”), is made and entered into by the Managing Member, the KKR Entities and the Trident Entities in accordance with Section 11.1(a) of the Agreement and shall become effective as of the date hereof. Capitalized terms used but not defined herein are defined in the Agreement.

AGREEMENT

I. AMENDMENTS.

Section 3.6(e)(vi) of the Agreement is hereby amended and restated in its entirety as follows:

“(vi) an exchanging Member shall only be permitted to exchange less than all of its Units if (A) after such Exchange it would continue to hold at least 25,000 Units and (B) it exchanges not less than 25,000 Units in such Exchange; *provided, however*, that (x) the foregoing restrictions shall not apply with respect to the First Regular Exchange Date, and (y) notwithstanding the foregoing restrictions, with respect to the Second Regular Exchange Date and each subsequent Regular Exchange Date, an exchanging Member shall in any event be permitted to exchange the maximum percentage of Initial Units permitted to be exchanged on such Regular Exchange Date pursuant to the foregoing clause (iii);”

II. MISCELLANEOUS.

Full Force and Effect. Except to the extent modified hereby, the Agreement shall remain in full force and effect.

Governing Law. This Amendment shall be governed by the internal laws of the State of Delaware without giving effect to any choice of law or conflict of law provision or rule.

Execution in Counterparts. This Amendment may be executed in counterparts, by facsimile or Portable Document Format (PDF), each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

Severability. Each provision of this Amendment shall be considered severable and if for any reason any provision or provisions herein are determined to be invalid, unenforceable or illegal under any existing or future law, such invalidity, unenforceability or illegality shall not impair the operation of or affect those portions of this Amendment which are valid, enforceable and legal.

[Signature Page Follows.]

IN WITNESS WHEREOF, the undersigned, intending to be legally bound hereby, have duly executed this Amendment as of the date first written above.

MANAGING MEMBER

FOCUS FINANCIAL PARTNERS INC.

By: /s/ J. Russell McGranahan

Name: J. Russell McGranahan

Title: General Counsel

KKR ENTITIES

KKR FREYA AGGREGATOR L.P.

By: KKR Freya Aggregator GP LLC, its general partner

By: /s/ William Janetschek

Name: William Janetschek

Title: Vice President and Chief Financial Officer

TRIDENT ENTITIES

TRIDENT FFP LP

By: Trident FFP GP LLC, its general partner

By: /s/ Fayez Muhtadie

Name: Fayez Muhtadie

Title:

SIGNATURE PAGE TO
AMENDMENT NO. 1 TO THE
FOURTH AMENDED AND RESTATED OPERATING AGREEMENT OF
FOCUS FINANCIAL PARTNERS, LLC

INDEMNIFICATION AGREEMENT

This Indemnification Agreement (“Agreement”) is made as of April 1, 2019 by and between Focus Financial Partners Inc., a Delaware corporation (the “Company”), and Joseph Feliciani, Jr. (“Indemnitee”). This Agreement supersedes and replaces any and all previous Agreements between the Company and Indemnitee covering the subject matter of this Agreement.

RECITALS

WHEREAS, the Board of Directors of the Company (the “Board”) believes that highly competent persons have become more reluctant to serve publicly-held corporations as directors or officers or in other capacities unless they are provided with adequate protection through insurance or adequate indemnification against inordinate risks of claims and actions against them arising out of their service to and activities on behalf of the corporation;

WHEREAS, the Board has determined that, in order to attract and retain qualified individuals, the Company will attempt to maintain on an ongoing basis, at its sole expense, liability insurance to protect persons serving the Company and its subsidiaries from certain liabilities. Although the furnishing of such insurance has been a customary and widespread practice among United States-based corporations and other business enterprises, the Company believes that, given current market conditions and trends, such insurance may be available to it in the future only at higher premiums and with more exclusions. At the same time, directors, officers, and other persons in service to corporations or business enterprises are being increasingly subjected to expensive and time-consuming litigation relating to, among other things, matters that traditionally would have been brought only against the Company or business enterprise itself. The Amended and Restated Certificate of Incorporation of the Company (as may be amended, the “Certificate of Incorporation”) and the Amended and Restated Bylaws of the Company (as may be amended, the “Bylaws”) require indemnification of the officers and directors of the Company. Indemnitee may also be entitled to indemnification pursuant to the General Corporation Law of the State of Delaware (the “DGCL”). The Certificate of Incorporation, the Bylaws and the DGCL expressly provide that the indemnification provisions set forth therein are not exclusive, and thereby contemplate that contracts may be entered into between the Company and members of the board of directors, officers and other persons with respect to indemnification;

WHEREAS, the uncertainties relating to such insurance and to indemnification may increase the difficulty of attracting and retaining such persons;

WHEREAS, the Board has determined that the increased difficulty in attracting and retaining such persons is detrimental to the best interests of the Company and its stockholders and that the Company should act to assure such persons that there will be increased certainty of such protection in the future;

WHEREAS, it is reasonable, prudent and necessary for the Company contractually to obligate itself to indemnify, and to advance expenses on behalf of, such persons to the fullest extent permitted by applicable law so that they will serve or continue to serve the Company free from undue concern that they will not be so indemnified;

WHEREAS, this Agreement is a supplement to and in furtherance of the Certificate of Incorporation and the Bylaws, and any resolutions adopted pursuant thereto, as well as any rights of Indemnitees under any directors' and officers' liability insurance policy, and this Agreement and shall not be deemed a substitute therefor, nor to diminish or abrogate any rights of Indemnitee thereunder; and

WHEREAS, Indemnitee does not regard the protection available under the Certificate of Incorporation, the Bylaws and insurance as adequate in the present circumstances, and may not be willing to serve or continue to serve as an officer or director without adequate protection, and the Company desires Indemnitee to serve or continue to serve in such capacity. Indemnitee is willing to serve, continue to serve and to take on additional service for or on behalf of the Company on the condition that Indemnitee be so indemnified.

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, the Company and Indemnitee do hereby covenant and agree as follows:

Section 1. Services to the Company. Indemnitee agrees to serve as a director or officer of the Company or, by mutual agreement of the Company and Indemnitee, as a director or officer of another Enterprise (as defined below), as applicable. Indemnitee may at any time and for any reason resign from such position (subject to any other contractual obligation or any obligation imposed by operation of law), in which event the Company shall have no obligation under this Agreement to continue Indemnitee in such position. This Agreement shall not be deemed an employment contract between the Company (or any of its subsidiaries or any Enterprise) and Indemnitee. Indemnitee specifically acknowledges that Indemnitee's employment with the Company (or any of its subsidiaries or any Enterprise), if any, is at will, and the Indemnitee may be discharged at any time for any reason, with or without cause, except as may be otherwise provided in any written employment contract between Indemnitee and the Company (or any of its subsidiaries or any Enterprise), other applicable formal severance policies duly adopted by the Board or, with respect to service as a director or officer of the Company, by the Certificate of Incorporation, the Bylaws, and the DGCL. The foregoing notwithstanding, this Agreement shall continue in force after Indemnitee has ceased to serve as a director or officer of the Company or any Enterprise, as applicable, as provided in Section 16 hereof.

Section 2. Definitions. As used in this Agreement:

(a) References to "agent" shall mean any person who is or was a director, officer, or employee of the Company or a subsidiary of the Company or other person authorized by the Company to act for the Company, to include such person serving in such capacity as a director, officer, employee, fiduciary or other official of another corporation, partnership, limited liability company, joint venture, trust or other enterprise at the request of, for the convenience of, or to represent the interests of the Company or a subsidiary of the Company.

(b) A “Change in Control” shall be deemed to occur upon the earliest to occur after the date of this Agreement of any of the following events:

i. Acquisition of Stock by Third Party. Any Person (as defined below) is or becomes the Beneficial Owner (as defined below), directly or indirectly, of securities of the Company representing fifteen percent (15%) or more of the combined voting power of the Company’s then outstanding securities unless the change in relative Beneficial Ownership of the Company’s securities by any Person results solely from a reduction in the aggregate number of outstanding shares of securities entitled to vote generally in the election of directors;

ii. Change in Board of Directors. During any period of two (2) consecutive years (not including any period prior to the execution of this Agreement), individuals who at the beginning of such period constitute the Board, and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in Sections 2(b)(i), 2(b)(iii) or 2(b)(iv)) whose election by the Board or nomination for election by the Company’s stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority of the members of the Board;

iii. Corporate Transactions. The effective date of a merger or consolidation of the Company with any other entity, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the Surviving Entity) more than 50% of the combined voting power of the voting securities of the Surviving Entity outstanding immediately after such merger or consolidation and with the power to elect at least a majority of the board of directors or other governing body of such Surviving Entity;

iv. Liquidation. The approval by the stockholders of the Company of a complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company’s assets; and

v. Other Events. There occurs any other event of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or a response to any similar item on any similar schedule or form) promulgated under the Exchange Act (as defined below), whether or not the Company is then subject to such reporting requirement.

For purposes of this Section 2(b), the following terms shall have the following meanings:

(A) “Exchange Act” shall mean the Securities Exchange Act of 1934, as amended from time to time.

(B) "Person" shall have the meaning as set forth in Sections 13(d) and 14(d) of the Exchange Act; provided, however, that Person shall exclude (i) the Company, (ii) any trustee or other fiduciary holding securities under an employee benefit plan of the Company, and (iii) any entity owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company.

(C) "Beneficial Owner" shall have the meaning given to such term in Rule 13d-3 under the Exchange Act; provided, however, that Beneficial Owner shall exclude any Person otherwise becoming a Beneficial Owner by reason of the stockholders of the Company approving a merger of the Company with another entity.

(D) "Surviving Entity" shall mean the surviving entity in a merger or consolidation or any entity that controls, directly or indirectly, such surviving entity.

(c) "Corporate Status" describes the status of a person who is or was a director, trustee, partner, managing member, officer, employee, agent or fiduciary of the Company or of any other corporation, limited liability company, partnership or joint venture, trust or other enterprise which such person is or was serving at the request of the Company.

(d) "Disinterested Director" shall mean a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification is sought by Indemnitee.

(e) "Enterprise" shall mean the Company and any other corporation, limited liability company, partnership, joint venture, trust or other enterprise of which Indemnitee is or was serving at the request of the Company as a director, officer, trustee, partner, managing member, employee, agent or fiduciary.

(f) "Expenses" shall include all reasonable attorneys' fees, retainers, court costs, transcript costs, fees and other costs of experts and other professionals, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, any federal, state, local or foreign taxes imposed on Indemnitee as a result of the actual or deemed receipt of any payments under this Agreement, ERISA excise taxes and penalties, and all other disbursements, obligations or expenses of the types customarily incurred in connection with, or as a result of, prosecuting, defending, preparing to prosecute or defend, investigating, being or preparing to be a deponent or witness in, or otherwise participating in, a Proceeding. Expenses also shall include (i) Expenses incurred in connection with any appeal resulting from any Proceeding, including without limitation the premium, security for, and other costs relating to any cost bond, supersedeas bond, or other appeal bond or its equivalent, (ii) expenses incurred in connection with recovery under any directors' and officers' liability insurance policies maintained by the Company, regardless of whether Indemnitee is ultimately determined to be entitled to such indemnification, advancement or Expenses or insurance recovery, as the case may be, and (iii) for purposes of Section 14(d) only, Expenses incurred by or on behalf of

Indemnitee in connection with the interpretation, enforcement or defense of Indemnitee's rights under this Agreement, the Certificate of Incorporation, the Bylaws or under any directors' and officers' liability insurance policies maintained by the Company, by litigation or otherwise. The parties agree that for the purposes of any advancement of Expenses for which Indemnitee has made written demand to the Company in accordance with this Agreement, all Expenses included in such demand that are certified by affidavit of Indemnitee's counsel as being reasonable in the good faith judgment of such counsel shall be presumed conclusively to be reasonable. Expenses, however, shall not include amounts paid in settlement by Indemnitee or the amount of judgments or fines against Indemnitee.

(g) "Independent Counsel" shall mean a law firm, or a member of a law firm, that is experienced in matters of corporation law and neither presently is, nor in the past five years has been, retained to represent: (i) the Company or Indemnitee in any matter material to either such party (other than with respect to matters concerning the Indemnitee under this Agreement, or of other indemnitees under similar indemnification agreements), or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term "Independent Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's rights under this Agreement. The Company agrees to pay the reasonable fees and expenses of the Independent Counsel referred to above and to fully indemnify such counsel against any and all Expenses, claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto.

(h) The term "Proceeding" shall include any threatened, pending or completed action, suit, claim, counterclaim, cross claim, arbitration, mediation, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing or any other actual, threatened or completed proceeding, whether brought in the right of the Company or otherwise and whether of a civil, criminal, administrative, legislative, regulatory or investigative (formal or informal) nature, including any appeal therefrom, in which Indemnitee was, is or will be involved as a party, potential party, non-party witness or otherwise by reason of Indemnitee's Corporate Status, by reason of any action taken by Indemnitee (or a failure to take action by Indemnitee) or of any action (or failure to act) on Indemnitee's part while acting pursuant to Indemnitee's Corporate Status, in each case whether or not serving in such capacity at the time any liability or Expense is incurred for which indemnification, reimbursement, or advancement of Expenses can be provided under this Agreement. If the Indemnitee believes in good faith that a given situation may lead to or culminate in the institution of a Proceeding, this shall be considered a Proceeding under this paragraph.

(i) Reference to "other enterprise" shall include employee benefit plans; references to "fines" shall include any excise tax assessed with respect to any employee benefit plan; references to "serving at the request of the Company" shall include any service as a director, officer, employee or agent of the Company which imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner Indemnitee reasonably believed to be in the best interests of the participants and beneficiaries of an employee benefit plan

shall be deemed to have acted in a manner “not opposed to the best interests of the Company” as referred to in this Agreement.

Section 3. Indemnity in Third-Party Proceedings. The Company shall indemnify Indemnitee in accordance with the provisions of this Section 3 if Indemnitee is, or is threatened to be made, a party to or a participant in any Proceeding, other than a Proceeding by or in the right of the Company to procure a judgment in its favor. Pursuant to this Section 3, Indemnitee shall be indemnified to the fullest extent permitted by applicable law against all Expenses, judgments, liabilities, fines, penalties and amounts paid in settlement (including all interest, assessments and other charges paid or payable in connection with or in respect of such Expenses, judgments, liabilities, fines, penalties and amounts paid in settlement) actually and reasonably incurred by Indemnitee or on Indemnitee’s behalf in connection with such Proceeding or any claim, issue or matter therein, if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company and, in the case of a criminal Proceeding had no reasonable cause to believe that Indemnitee’s conduct was unlawful. The parties hereto intend that this Agreement shall provide to the fullest extent permitted by law for indemnification in excess of that expressly permitted by statute, including, without limitation, any indemnification provided by the Certificate of Incorporation, the Bylaws, vote of the Company’s stockholders or disinterested directors or applicable law.

Section 4. Indemnity in Proceedings by or in the Right of the Company. The Company shall indemnify Indemnitee in accordance with the provisions of this Section 4 if Indemnitee is, or is threatened to be made, a party to or a participant in any Proceeding by or in the right of the Company to procure a judgment in its favor. Pursuant to this Section 4, Indemnitee shall be indemnified to the fullest extent permitted by applicable law against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee’s behalf in connection with such Proceeding or any claim, issue or matter therein, if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company. If applicable law so provides, no indemnification for Expenses shall be made under this Section 4 in respect of any claim, issue or matter as to which Indemnitee shall have been finally adjudged by a court of competent jurisdiction (after the time for an appeal has expired) to be liable to the Company, unless and only to the extent that the Delaware Court (as hereinafter defined) or any court in which the Proceeding was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnification.

Section 5. Indemnification for Expenses of a Party Who is Wholly or Partly Successful. Notwithstanding any other provisions of this Agreement, to the fullest extent permitted by applicable law and to the extent that Indemnitee is a party to (or a participant in) and is successful, on the merits or otherwise, in any Proceeding or in defense of any claim, issue or matter therein, in whole or in part, the Company shall indemnify Indemnitee against all Expenses actually and reasonably incurred by or on behalf of Indemnitee in connection therewith. If Indemnitee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall indemnify Indemnitee against all Expenses actually and reasonably incurred by Indemnitee or on

Indemnitee's behalf in connection with or related to each successfully resolved claim, issue or matter to the fullest extent permitted by law. For purposes of this Section and without limitation, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

Section 6. Indemnification For Expenses of a Witness. Notwithstanding any other provision of this Agreement, to the fullest extent permitted by applicable law and to the extent that Indemnitee is, by reason of Indemnitee's Corporate Status, a witness, is or was made (or asked) to respond to discovery requests in any Proceeding or otherwise asked to participate in any Proceeding to which Indemnitee is not a party, Indemnitee shall be indemnified against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection therewith.

Section 7. Partial Indemnification. If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of Expenses, but not, however, for the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion thereof to which Indemnitee is entitled.

Section 8. Additional Indemnification.

(a) Notwithstanding any limitation in Sections 3, 4, or 5, the Company shall indemnify Indemnitee to the fullest extent permitted by applicable law if Indemnitee, by reason of his or her Corporate Status is, or is threatened to be made, a party to or a participant in any Proceeding (including a Proceeding by or in the right of the Company to procure a judgment in its favor) by reason of Indemnitee's Corporate Status.

(b) For purposes of Section 8(a), the meaning of the phrase "to the fullest extent permitted by applicable law" shall include, but not be limited to:

i. to the fullest extent permitted by the provision of the DGCL that authorizes or contemplates additional indemnification by agreement, or the corresponding provision of any amendment to or replacement of the DGCL, and

ii. to the fullest extent authorized or permitted by any amendments to or replacements of the DGCL adopted after the date of this Agreement that increase the extent to which a corporation may indemnify its officers and directors.

Section 9. Exclusions. Notwithstanding any provision in this Agreement, the Company shall not be obligated under this Agreement to make any indemnification payment in connection with any claim made against Indemnitee:

(a) for which payment has actually been made to or on behalf of Indemnitee under any insurance policy or other indemnity provision, except with respect to any excess beyond the amount paid under any insurance policy or other indemnity provision; or

(b) for (i) an accounting of profits made from the purchase and sale (or sale and purchase) by Indemnitee of securities of the Company within the meaning of Section 16(b) of the

Exchange Act (as defined in Section 2(b) hereof) or similar provisions of state statutory law or common law; provided that the Company shall advance Expenses in connection with Indemnitee's defense of a claim under Section 16(b), which advances shall be repaid to the Company if it is ultimately determined that Indemnitee is not entitled to indemnification; or (ii) any reimbursement of the Company by the Indemnitee of any bonus or other incentive-based or equity-based compensation or of any profits realized by the Indemnitee from the sale of securities of the Company, as required in each case under the Exchange Act (including any such reimbursements that arise from an accounting restatement of the Company pursuant to Section 304 of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), or the payment to the Company of profits arising from the purchase and sale by Indemnitee of securities in violation of Section 306 of the Sarbanes-Oxley Act), if Indemnitee is held liable therefor (including pursuant to any settlement arrangements); or (iii) any reimbursement of the Company by Indemnitee of any compensation pursuant to any compensation recoupment or clawback policy adopted by the Board or the compensation committee of the Board, including but not limited to any such policy adopted to comply with stock exchange listing requirements implementing Section 10D of the Exchange Act; or

(c) except as provided in Section 14(d) of this Agreement, in connection with any Proceeding (or any part of any Proceeding) initiated by Indemnitee, including any Proceeding (or any part of any Proceeding) initiated by Indemnitee against the Company or its directors, officers, employees or other indemnitees, unless (i) the Board authorized the Proceeding (or any part of any Proceeding) prior to its initiation, (ii) such payment arises in connection with any mandatory counterclaim or cross claim or affirmative defense brought or raised by Indemnitee in any Proceeding (or any part of any Proceeding), or (iii) the Company provides the indemnification, in its sole discretion, pursuant to the powers vested in the Company under applicable law.

Section 10. Advances of Expenses. Notwithstanding any provision of this Agreement to the contrary (other than Section 14(d)), the Company shall advance, to the extent not prohibited by law, the Expenses incurred by or on behalf of Indemnitee in connection with any Proceeding (or any part of any Proceeding) not initiated by Indemnitee or any Proceeding initiated by Indemnitee with the prior approval of the Board as provided in Section 9(c), and such advancement shall be made as soon as reasonably practicable, but in any event no later than within thirty (30) days after the receipt by the Company of a statement or statements requesting such advances from time to time, whether prior to or after final disposition of any Proceeding. Advances shall be unsecured and interest free. Advances shall be made without regard to Indemnitee's ability to repay the Expenses and without regard to Indemnitee's ultimate entitlement to indemnification under the other provisions of this Agreement. In accordance with Section 14(d), advances shall include any and all reasonable Expenses incurred pursuing an action to enforce this right of advancement, including Expenses incurred preparing and forwarding statements to the Company to support the advances claimed. The Indemnitee shall qualify for advances upon the execution and delivery to the Company of this Agreement, which shall constitute an undertaking providing that the Indemnitee undertakes to repay the amounts advanced (without interest) by the Company pursuant to this Section 10, if and only to the extent that it is ultimately determined by final non-appealable judgment or other final non-appealable adjudication under the provisions of any applicable law (as to which all rights of appeal therefrom have been exhausted or lapsed) that Indemnitee is not entitled to be indemnified by the Company. No other form of undertaking shall

be required other than the execution of this Agreement. This Section 10 shall not apply to any claim made by Indemnitee for which indemnity is excluded pursuant to Section 9.

Section 11. Procedure for Notification and Defense of Claim.

(a) Indemnitee shall notify the Company in writing of any matter with respect to which Indemnitee intends to seek indemnification or advancement of Expenses hereunder as soon as reasonably practicable following the receipt by Indemnitee of written notice thereof. The written notification to the Company shall include a description of the nature of the Proceeding and the facts underlying the Proceeding, in each case, to the extent known to Indemnitee. To obtain indemnification under this Agreement, Indemnitee shall submit to the Company a written request, including therein or therewith such documentation and information as is reasonably available to Indemnitee and is reasonably necessary to determine whether and to what extent Indemnitee is entitled to indemnification following the final disposition of such Proceeding. The omission by Indemnitee to notify the Company hereunder will not relieve the Company from any liability which it may have to Indemnitee hereunder or otherwise than under this Agreement, and any delay in so notifying the Company shall not constitute a waiver by Indemnitee of any rights under this Agreement. The Secretary of the Company shall, promptly upon receipt of such a request for indemnification, advise the Board in writing that Indemnitee has requested indemnification.

(b) The Company will be entitled to participate in the Proceeding at its own expense.

(c) The Company shall not settle any Proceeding (in whole or in part) if such settlement would impose any Expense, judgment, liability, fine, penalty or limitation on Indemnitee which Indemnitee is not entitled to be indemnified hereunder without Indemnitee's prior written consent, which shall not be unreasonably withheld.

Section 12. Procedure Upon Application for Indemnification.

(a) Upon written request by Indemnitee for indemnification pursuant to Section 11(a), a determination, if required by applicable law, with respect to Indemnitee's entitlement thereto shall be made in the specific case: (i) if a Change in Control shall have occurred, by Independent Counsel in a written opinion to the Board, a copy of which shall be delivered to Indemnitee; or (ii) if a Change in Control shall not have occurred, (A) by a majority vote of the Disinterested Directors, even though less than a quorum of the Board, (B) by a committee of Disinterested Directors designated by a majority vote of the Disinterested Directors, even though less than a quorum of the Board, (C) if there are no such Disinterested Directors or, if such Disinterested Directors so direct, by Independent Counsel in a written opinion to the Board, a copy of which shall be delivered to Indemnitee or (D) if so directed by the Board, by the stockholders of the Company; and, if it is so determined that Indemnitee is entitled to indemnification, payment to Indemnitee shall be made within ten (10) days after such determination. Indemnitee shall cooperate with the person, persons or entity making such determination with respect to Indemnitee's entitlement to indemnification, including providing to such person, persons or entity upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and

9

reasonably necessary to such determination. Any costs or Expenses (including attorneys' fees and disbursements) incurred by or on behalf of Indemnitee in so cooperating with the person, persons or entity making such determination shall be borne by the Company (irrespective of the determination as to Indemnitee's entitlement to indemnification) and the Company hereby indemnifies and agrees to hold Indemnitee harmless therefrom. The Company promptly will advise Indemnitee in writing with respect to any determination that Indemnitee is or is not entitled to indemnification, including a description of any reason or basis for which indemnification has been denied.

(b) In the event the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 12(a) hereof, the Independent Counsel shall be selected as provided in this Section 12(b). If a Change in Control shall not have occurred, the Independent Counsel shall be selected by the Board, and the Company shall give written notice to Indemnitee advising Indemnitee of the identity of the Independent Counsel so selected. If a Change in Control shall have occurred, the Independent Counsel shall be selected by Indemnitee (unless Indemnitee shall request that such selection be made by the Board, in which event the preceding sentence shall apply), and Indemnitee shall give written notice to the Company advising it of the identity of the Independent Counsel so selected. In either event, Indemnitee or the Company, as the case may be, may, within ten (10) days after such written notice of selection shall have been given, deliver to the Company or to Indemnitee, as the case may be, a written objection to such selection; provided, however, that such objection may be asserted only on the ground that the Independent Counsel so selected does not meet the requirements of "Independent Counsel" as defined in Section 2 of this Agreement, and the objection shall set forth with particularity the factual basis of such assertion. Absent a proper and timely objection, the person so selected shall act as Independent Counsel. If such written objection is so made and substantiated, the Independent Counsel so selected may not serve as Independent Counsel unless and until such objection is withdrawn or the Delaware Court has determined that such objection is without merit. If, within twenty (20) days after the later of submission by Indemnitee of a written request for indemnification pursuant to Section 11(a) hereof and the final disposition of the Proceeding, no Independent Counsel shall have been selected and not objected to, either the Company or Indemnitee may petition the Delaware Court for resolution of any objection which shall have been made by the Company or Indemnitee to the other's selection of Independent Counsel and/or for the appointment as Independent Counsel of a person selected by such court or by such other person as such court shall designate, and the person with respect to whom all objections are so resolved or the person so appointed shall act as Independent Counsel under Section 12(a) hereof. Upon the due commencement of any judicial proceeding or arbitration pursuant to Section 14(a) of this Agreement, Independent Counsel shall be discharged and relieved of any further responsibility in such capacity (subject to the applicable standards of professional conduct then prevailing).

(c) If the Company disputes a portion of the amounts for which indemnification is requested, the undisputed portion shall be paid and only the disputed portion withheld pending resolution of any such dispute.

10

Section 13. Presumptions and Effect of Certain Proceedings.

(a) In making a determination with respect to entitlement to indemnification hereunder, the person or persons or entity making such determination shall, to the fullest extent not prohibited by law, presume that Indemnitee is entitled to indemnification under this Agreement if Indemnitee has submitted a request for indemnification in accordance with Section 11(a) of this Agreement, and the Company shall, to the fullest extent not prohibited by law, have the burden of proof to overcome that presumption in connection with the making by any person, persons or entity of any determination contrary to that presumption. Neither the failure of the Company (including by its directors or Independent Counsel) to have made a determination prior to the commencement of any action pursuant to this Agreement that indemnification is proper in the circumstances because Indemnitee has met the applicable standard of conduct, nor an actual determination by the Company (including by its directors or Independent Counsel) that Indemnitee has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that Indemnitee has not met the applicable standard of conduct.

(b) Subject to Section 14(e), if the person, persons or entity empowered or selected under Section 12 of this Agreement to determine whether Indemnitee is entitled to indemnification shall not have made a determination within sixty (60) days after receipt by the Company of the request therefor, the requisite determination of entitlement to indemnification shall, to the fullest extent not prohibited by law, be deemed to have been made and Indemnitee shall be entitled to such indemnification, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law; provided, however, that such 60-day period may be extended for a reasonable time, not to exceed an additional thirty (30) days, if the person, persons or entity making the determination with respect to entitlement to indemnification in good faith requires such additional time for the obtaining or evaluating of documentation and/or information relating thereto; and provided, further, that the foregoing provisions of this Section 13(b) shall not apply (i) if the determination of entitlement to indemnification is to be made by the stockholders pursuant to Section 12(a) of this Agreement and if (A) within fifteen (15) days after receipt by the Company of the request for such determination the Board has resolved to submit such determination to the stockholders for their consideration at an annual meeting thereof to be held within seventy-five (75) days after such receipt and such determination is made thereat, or (B) a special meeting of stockholders is called within fifteen (15) days after such receipt for the purpose of making such determination, such meeting is held for such purpose within sixty (60) days after having been so called and such determination is made thereat, or (ii) if the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 12(a) of this Agreement.

(c) The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent, shall not (except as otherwise expressly provided in this Agreement) of itself adversely affect the right of Indemnitee to indemnification or create a presumption that Indemnitee did not act in good faith and in a manner which Indemnitee reasonably believed to be in or not opposed to the best interests of the Company or, with respect to any criminal Proceeding, that Indemnitee had reasonable cause to believe that Indemnitee's conduct was unlawful.

(d) For purposes of any determination of good faith, Indemnitee shall be deemed to have acted in good faith if Indemnitee's action is based on the records or books of account of the Enterprise, including financial statements, or on information supplied to Indemnitee by the directors or officers of the Enterprise in the course of their duties, or on the advice of legal counsel for the Enterprise or on information or records given or reports made to the Enterprise by an independent certified public accountant or by an appraiser, financial advisor or other expert selected with reasonable care by or on behalf of the Enterprise. The provisions of this Section 13(d) shall not be deemed to be exclusive or to limit in any way the other circumstances in which the Indemnitee may be deemed to have met the applicable standard of conduct set forth in this Agreement. Whether or not the foregoing provisions of this Section 13(d) are satisfied, it shall in any event be presumed that Indemnitee has at all times acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company.

(e) The knowledge and/or actions, or failure to act, of any director, officer, trustee, partner, managing member, fiduciary, agent or employee of the Enterprise shall not be imputed to Indemnitee for purposes of determining the right to indemnification under this Agreement.

Section 14. Remedies of Indemnitee.

(a) Subject to Section 14(e), in the event that (i) a determination is made pursuant to Section 12 of this Agreement that Indemnitee is not entitled to indemnification under this Agreement, (ii) advancement of Expenses is not timely made pursuant to Section 10 of this Agreement, (iii) no determination of entitlement to indemnification shall have been made pursuant to Section 12(a) of this Agreement within ninety (90) days after receipt by the Company of the request for indemnification, (iv) payment of indemnification is not made pursuant to Section 5, 6 or 7 or the second to last sentence of Section 12(a) of this Agreement within ten (10) days after receipt by the Company of a written request therefor, (v) payment of indemnification pursuant to Section 3, 4 or 8 of this Agreement is not made within ten (10) days after a determination has been made that Indemnitee is entitled to indemnification, or (vi) the Company or any other person takes or threatens to take any action to declare this Agreement void or unenforceable, or institutes any litigation or other action or Proceeding designed to deny, or to recover from, the Indemnitee the benefits provided or intended to be provided to the Indemnitee hereunder, Indemnitee shall be entitled to an adjudication by a court of Indemnitee's entitlement to such indemnification or advancement of Expenses. Alternatively, Indemnitee, at Indemnitee's option, may seek an award in arbitration to be conducted by a single arbitrator pursuant to the Commercial Arbitration Rules of the American Arbitration Association. Indemnitee shall commence such proceeding seeking an adjudication or an award in arbitration within 180 days following the date on which Indemnitee first has the right to commence such proceeding pursuant to this Section 14(a); provided, however, that the foregoing clause shall not apply in respect of a proceeding brought by Indemnitee to enforce his rights under Section 5 of this Agreement. The Company shall not oppose Indemnitee's right to seek any such adjudication or award in arbitration.

(b) In the event that a determination shall have been made pursuant to Section 12(a) of this Agreement that Indemnitee is not entitled to indemnification, any judicial proceeding or arbitration commenced pursuant to this Section 14 shall be conducted in all respects as a de

novus trial, or arbitration, on the merits and Indemnitee shall not be prejudiced by reason of that adverse determination. In any judicial proceeding or arbitration commenced pursuant to this Section 14 the Company shall have the burden of proving Indemnitee is not entitled to indemnification or advancement of Expenses, as the case may be.

(c) If a determination shall have been made pursuant to Section 12(a) of this Agreement that Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding or arbitration commenced pursuant to this Section 14, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law.

(d) The Company shall, to the fullest extent not prohibited by law, be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Section 14 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Company is bound by all the provisions of this Agreement. It is the intent of the Company that, to the fullest extent permitted by law, the Indemnitee not be required to incur legal fees or other Expenses associated with the interpretation, enforcement or defense of Indemnitee's rights under this Agreement by litigation or otherwise because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Indemnitee hereunder. The Company shall, to the fullest extent permitted by law, indemnify Indemnitee against any and all Expenses and, if requested by Indemnitee, shall (within ten (10) days after receipt by the Company of a written request therefor) advance, to the extent not prohibited by law, such Expenses to Indemnitee, which are incurred by or on behalf of Indemnitee in connection with any action brought by Indemnitee for indemnification or advancement of Expenses from the Company under this Agreement or under any directors' and officers' liability insurance policies maintained by the Company if, in the case of indemnification, Indemnitee is wholly successful on the underlying claims; if Indemnitee is not wholly successful on the underlying claims, then such indemnification shall be only to the extent Indemnitee is successful on such underlying claims or otherwise as permitted by law, whichever is greater.

(e) Notwithstanding anything in this Agreement to the contrary, no determination as to entitlement of Indemnitee to indemnification under this Agreement shall be required to be made prior to the final disposition of the Proceeding.

Section 15. Non-exclusivity; Survival of Rights; Insurance; Subrogation.

(a) The rights of indemnification and to receive advancement of Expenses as provided by this Agreement (i) shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the Certificate of Incorporation, the Bylaws, any agreement, a vote of stockholders or a resolution of directors, or otherwise and (ii) shall be interpreted independently of, and without reference to, any other such rights to which Indemnitee may at any time be entitled. No amendment, alteration or repeal of this Agreement or of any provision hereof, the Certificate of Incorporation or the Bylaws shall limit or restrict any

right of Indemnitee under this Agreement in respect of any action taken or omitted by Indemnitee in Indemnitee's Corporate Status prior to such amendment, alteration or repeal. To the extent that a change in Delaware law, whether by statute or judicial decision, permits greater indemnification or advancement of Expenses than would be afforded currently under the Bylaws, the Certificate of Incorporation and this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other right or remedy.

(b) To the extent that the Company maintains an insurance policy or policies providing liability insurance for directors, officers, employees, or agents of the Enterprise, Indemnitee shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage available for any such director, officer, employee or agent under such policy or policies. If, at the time of the receipt of a notice of a claim pursuant to the terms hereof, the Company has director and officer liability insurance in effect, the Company shall give prompt notice of such claim or of the commencement of a Proceeding, as the case may be, to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable as a result of such Proceeding in accordance with the terms of such policies.

(c) The Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable hereunder (or for which advancement is provided hereunder) if and to the extent that Indemnitee has otherwise actually received such payment under any insurance policy, contract, agreement or otherwise.

(d) The Company hereby acknowledges that Indemnitee may have certain rights to indemnification, advancement and insurance provided by one or more Persons with whom or which Indemnitee may be associated. The Company hereby acknowledges and agrees that (i) the Company shall be the indemnitor of first resort with respect to any Proceeding, Expense, liability or matter that is the subject of the Indemnity Obligations (as defined below), (ii) the Company shall be primarily liable for all Indemnity Obligations and any indemnification afforded to Indemnitee in respect of any Proceeding, Expense, liability or matter that is the subject of Indemnity Obligations, whether created by applicable law, organizational or constituent documents, contract (including this Agreement) or otherwise, (iii) any obligation of any other Persons with whom or which Indemnitee may be associated to indemnify Indemnitee or advance Expenses or liabilities to Indemnitee in respect of any Proceeding shall be secondary to the obligations of the Company hereunder, (iv) the Company shall be required to indemnify Indemnitee and advance Expenses or liabilities to Indemnitee hereunder to the fullest extent provided herein without regard to any rights Indemnitee may have against any other Person with whom or which Indemnitee may be associated or insurer of any such Person and (v) the Company irrevocably waives, relinquishes and releases any other Person with whom or which Indemnitee may be associated from any claim of contribution, subrogation or any other recovery of any kind

in respect of amounts paid by the Company hereunder. In the event any other Person with whom or which Indemnitee may be associated or their insurers advances or extinguishes any liability or loss which is the subject of any Indemnity Obligation owed by the Company or payable under any Company insurance policy, the payor shall have a right of subrogation against the Company or its insurer or insurers for all amounts so paid which would otherwise be payable by the Company or its insurer or insurers under this Agreement. In no event will payment of an Indemnity Obligation by any other Person with whom or which Indemnitee may be associated or their insurers affect the obligations of the Company hereunder or shift primary liability for any Indemnity Obligation to any other Person with whom or which Indemnitee may be associated. Any indemnification, insurance or advancement provided by any other Person with whom or which Indemnitee may be associated with respect to any liability arising as a result of Indemnitee's status as director, officer, employee or agent of the Company or capacity as an officer or director of any Person is specifically in excess over any Indemnity Obligation of the Company or valid and any collectible insurance (including but not limited to any malpractice insurance or professional errors and omissions insurance) provided by the Company under this Agreement. As used herein, the term "Indemnity Obligations" shall mean all obligations of the Company to Indemnitee under the Certificate of Incorporation, the Bylaws, this Agreement or otherwise, including the Company's obligations to provide indemnification to Indemnitee and advance Expenses to Indemnitee under this Agreement.

Section 16. Duration of Agreement. This Agreement shall continue until and terminate upon the later of: (a) ten (10) years after the date that Indemnitee shall have ceased to serve as a director or officer of the Company or any other Enterprise, as applicable, or (b) one (1) year after the final termination of any Proceeding then pending in respect of which Indemnitee is granted rights of indemnification or advancement of Expenses hereunder and of any proceeding (including any appeal thereof) commenced by Indemnitee pursuant to Section 14 of this Agreement relating thereto. The indemnification and advancement of expenses rights provided by or granted pursuant to this Agreement shall be binding upon and be enforceable by the parties hereto and their respective successors and assigns (including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business or assets of the Company), shall continue as to an Indemnitee who has ceased to be a director, officer, employee or agent of the Company or of any other Enterprise, and shall inure to the benefit of Indemnitee and Indemnitee's spouse, assigns, heirs, devisees, executors and administrators and other legal representatives. The Company shall require and shall cause any successor (whether direct or indirect by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company to, by written agreement, expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

Section 17. Severability. Nothing in this Agreement is intended to require or shall be construed as requiring the Company to do or fail to do any act in violation of applicable law. The Company's inability, pursuant to court order or other applicable law, to perform its obligations hereunder shall not constitute a breach of this Agreement. If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Agreement (including without limitation, each portion of any Section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall

not in any way be affected or impaired thereby and shall remain enforceable to the fullest extent permitted by law; (b) such provision or provisions shall be deemed reformed to the extent necessary to conform to applicable law and to give the maximum effect to the intent of the parties hereto; and (c) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any Section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested thereby.

Section 18. Enforcement.

(a) The Company expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on it hereby in order to induce Indemnitee to serve or continue to serve as a director or officer of the Company, and the Company acknowledges that Indemnitee is relying upon this Agreement in serving or continuing to serve as a director or officer of the Company.

(b) This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral, written and implied, between the parties hereto with respect to the subject matter hereof; provided, however, that this Agreement is a supplement to and in furtherance of the Certificate of Incorporation, the Bylaws, any directors' and officers' insurance maintained by the Company and applicable law, and shall not be deemed a substitute therefor, nor to diminish or abrogate any rights of Indemnitee thereunder.

Section 19. Modification and Waiver. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions of this Agreement nor shall any waiver constitute a continuing waiver.

Section 20. Notice by Indemnitee. Indemnitee agrees promptly to notify the Company in writing upon being served with any summons, citation, subpoena, complaint, indictment, information or other document relating to any Proceeding or matter which may be subject to indemnification or advancement of Expenses covered hereunder. The failure of Indemnitee to so notify the Company shall not relieve the Company of any obligation which it may have to the Indemnitee under this Agreement or otherwise.

Section 21. Notices. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given if (a) delivered by hand and receipted for by the party to whom said notice or other communication shall have been directed, (b) mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed, (c) mailed by reputable overnight courier and receipted for by the party to whom said notice or other communication shall have been directed or (d) sent by facsimile transmission, with receipt of oral confirmation that such transmission has been received:

(a) If to Indemnitee, at the address indicated on the signature page of this Agreement, or such other address as Indemnitee shall provide to the Company.

(b) If to the Company to

Focus Financial Partners Inc.
825 Third Avenue, 27th Floor
New York, NY 10022
Attn: General Counsel

or to any other address as may have been furnished to Indemnitee by the Company.

Section 22. Contribution. To the fullest extent permissible under applicable law, if the indemnification provided for in this Agreement is unavailable to Indemnitee for any reason whatsoever, the Company, in lieu of indemnifying Indemnitee, shall contribute to the amount incurred by Indemnitee, whether for judgments, fines, penalties, excise taxes, amounts paid or to be paid in settlement and/or for Expenses, in connection with any claim relating to an indemnifiable event under this Agreement, in such proportion as is deemed fair and reasonable in light of all of the circumstances of such Proceeding in order to reflect (i) the relative benefits received by the Company and Indemnitee as a result of the event(s) and/or transaction(s) giving cause to such Proceeding; and/or (ii) the relative fault of the Company (and its directors, officers, employees and agents) and Indemnitee in connection with such event(s) and/or transaction(s).

Section 23. Applicable Law and Consent to Jurisdiction. This Agreement and the legal relations among the parties shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware, without regard to its conflict of laws rules. Except with respect to any arbitration commenced by Indemnitee pursuant to Section 14(a) of this Agreement, the Company and Indemnitee hereby irrevocably and unconditionally (i) agree that any action or proceeding arising out of or in connection with this Agreement shall be brought only in the Court of Chancery of the State of Delaware (the "Delaware Court"), and not in any other state or federal court in the United States of America or any court in any other country, (ii) consent to submit to the exclusive jurisdiction of the Delaware Court for purposes of any action or proceeding arising out of or in connection with this Agreement, (iii) waive any objection to the laying of venue of any such action or proceeding in the Delaware Court, and (iv) waive, and agree not to plead or to make, any claim that any such action or proceeding brought in the Delaware Court has been brought in an improper or inconvenient forum.

Section 24. Identical Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement. Only one such counterpart signed by the party against whom enforceability is sought needs to be produced to evidence the existence of this Agreement.

Section 25. Miscellaneous. Use of the masculine pronoun shall be deemed to include usage of the feminine pronoun where appropriate. The headings of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

IN WITNESS WHEREOF, the parties have caused this Agreement to be signed as of the day and year first above written.

FOCUS FINANCIAL PARTNERS INC.

INDEMNITEE

By: _____
Name: J. Russell McGranahan
Office: General Counsel

Name: Joseph Feliciani, Jr.
Address: 35 Elfreths Ct.
Newtown, PA 18940

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Ruediger Adolf, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Focus Financial Partners Inc. ("the registrant");
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 quarterly report is being prepared;
 - b. 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
 - c. 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 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/ RUEDIGER ADOLF

Ruediger Adolf
Chairman and Chief Executive Officer

Date: May 9, 2019

QuickLinks

[Exhibit 31.1](#)

[CERTIFICATION OF CHIEF EXECUTIVE OFFICER](#)

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, James Shanahan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Focus Financial Partners Inc. ("the registrant");
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 quarterly report is being prepared;
 - b. 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
 - c. 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 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/ JAMES SHANAHAN

James Shanahan
Chief Financial Officer

Date: May 9, 2019

QuickLinks

[Exhibit 31.2](#)

[CERTIFICATION OF CHIEF FINANCIAL OFFICER](#)

**CERTIFICATION OF
CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
UNDER SECTION 906 OF THE
SARBANES OXLEY ACT OF 2002, 18 U.S.C. § 1350**

In connection with the Quarterly Report on Form 10-Q of Focus Financial Partners Inc. (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Ruediger Adolf, Chief Executive Officer of the Company, and James Shanahan, Chief Financial Officer of the Company, each certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ RUEDIGER ADOLF

/s/ JAMES SHANAHAN

Ruediger Adolf
Chairman and Chief Executive Officer

James Shanahan
Chief Financial Officer

Date: May 9, 2019

Date: May 9, 2019

QuickLinks

[Exhibit 32.1](#)

[CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER UNDER SECTION 906 OF THE SARBANES OXLEY ACT OF 2002, 18 U.S.C. § 1350](#)

