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

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**FORM 10-Q**

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(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, 2022

OR

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

Commission File No. 001-38604

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**Focus Financial Partners Inc.**

(Exact Name of Registrant as Specified in its Charter)

**Delaware**  
(State or Other Jurisdiction  
of Incorporation or Organization)

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

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

**10022**  
(Zip Code)

**(646) 519-2456**

(Registrant's telephone number, including area code)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Class A common stock, par value \$0.01 per share	FOCS	Nasdaq Global Select Market

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

As of May 2, 2022, the registrant had 65,362,389 shares of Class A common stock and 12,114,104 shares of Class B common stock outstanding.

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## PART I: FINANCIAL INFORMATION

## Item 1. Financial Statements

## FOCUS FINANCIAL PARTNERS INC.

## Unaudited condensed consolidated balance sheets

(In thousands, except share and per share amounts)

	December 31, 2021	March 31, 2022
<b>ASSETS</b>		
Cash and cash equivalents	\$ 310,684	\$ 317,034
Accounts receivable less allowances of \$3,255 at 2021 and \$3,696 at 2022	198,827	209,209
Prepaid expenses and other assets	123,826	161,997
Fixed assets—net	47,199	46,832
Operating lease assets	249,850	256,064
Debt financing costs—net	4,254	3,580
Deferred tax assets—net	267,332	258,228
Goodwill	1,925,315	1,928,135
Other intangible assets—net	1,581,719	1,525,002
<b>TOTAL ASSETS</b>	<u>\$ 4,709,006</u>	<u>\$ 4,706,081</u>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 11,580	\$ 14,719
Accrued expenses	72,572	75,956
Due to affiliates	105,722	28,808
Deferred revenue	10,932	12,742
Contingent consideration and other liabilities	468,284	415,942
Deferred tax liabilities	31,973	36,501
Operating lease liabilities	277,324	284,613
Borrowings under credit facilities (stated value of \$2,407,302 and \$2,451,128 at December 31, 2021 and March 31, 2022, respectively)	2,393,669	2,438,183
Tax receivable agreements obligations	219,542	215,999
<b>TOTAL LIABILITIES</b>	<u>3,591,598</u>	<u>3,523,463</u>
<b>COMMITMENTS AND CONTINGENCIES (Note 12)</b>		
<b>EQUITY</b>		
Class A common stock, par value \$0.01, 500,000,000 shares authorized; 65,320,124 and 65,362,389 shares issued and outstanding at December 31, 2021 and March 31, 2022, respectively	653	653
Class B common stock, par value \$0.01, 500,000,000 shares authorized; 11,439,019 and 11,601,814 shares issued and outstanding at December 31, 2021 and March 31, 2022, respectively	114	116
Additional paid-in capital	841,753	865,857
Retained earnings	24,995	54,097
Accumulated other comprehensive income	3,029	20,469
<b>Total shareholders' equity</b>	<u>870,544</u>	<u>941,192</u>
Non-controlling interest	246,864	241,426
<b>Total equity</b>	<u>1,117,408</u>	<u>1,182,618</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<u>\$ 4,709,006</u>	<u>\$ 4,706,081</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,	
	2021	2022
<b>REVENUES:</b>		
Wealth management fees	\$ 374,845	\$ 515,179
Other	19,330	21,388
Total revenues	394,175	536,567
<b>OPERATING EXPENSES:</b>		
Compensation and related expenses	141,043	181,800
Management fees	102,072	137,839
Selling, general and administrative	63,826	88,650
Intangible amortization	42,983	60,276
Non-cash changes in fair value of estimated contingent consideration	25,936	(8,985)
Depreciation and other amortization	3,607	3,633
Total operating expenses	379,467	463,213
<b>INCOME FROM OPERATIONS</b>	<b>14,708</b>	<b>73,354</b>
<b>OTHER INCOME (EXPENSE):</b>		
Interest income	47	3
Interest expense	(10,521)	(17,616)
Amortization of debt financing costs	(852)	(1,101)
Other income (expense)—net	3	(36)
Income from equity method investments	283	95
Total other expense—net	(11,040)	(18,655)
<b>INCOME BEFORE INCOME TAX</b>	<b>3,668</b>	<b>54,699</b>
<b>INCOME TAX EXPENSE</b>	<b>1,186</b>	<b>15,617</b>
<b>NET INCOME</b>	<b>2,482</b>	<b>39,082</b>
Non-controlling interest	(2,226)	(9,980)
<b>NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS</b>	<b>\$ 256</b>	<b>\$ 29,102</b>
Income per share of Class A common stock:		
Basic	\$ 0.00	\$ 0.45
Diluted	\$ 0.00	\$ 0.44
Weighted average shares of Class A common stock outstanding:		
Basic	52,200,029	65,331,370
Diluted	52,654,822	65,767,463

See notes to unaudited condensed consolidated financial statements

**FOCUS FINANCIAL PARTNERS INC.**

**Unaudited condensed consolidated statements of comprehensive income**

**(In thousands)**

	For the three months ended	
	March 31,	
	2021	2022
Net income	\$ 2,482	\$ 39,082
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	(441)	3,750
Unrealized gain on interest rate swaps designated as cash flow hedges	5,251	18,766
Comprehensive income	7,292	61,598
Less: Comprehensive income attributable to non-controlling interest	(3,952)	(15,056)
Comprehensive income attributable to common shareholders	\$ 3,340	\$ 46,542

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,	
	2021	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 2,482	\$ 39,082
Adjustments to reconcile net income to net cash provided by (used in) operating activities—net of effect of acquisitions:		
Intangible amortization	42,983	60,276
Depreciation and other amortization	3,607	3,633
Amortization of debt financing costs	852	1,101
Non-cash equity compensation expense	12,356	6,707
Non-cash changes in fair value of estimated contingent consideration	25,936	(8,985)
Income from equity method investments	(283)	(95)
Distributions received from equity method investments	176	425
Deferred taxes and other non-cash items	436	6,424
Changes in cash resulting from changes in operating assets and liabilities:		
Accounts receivable	(7,393)	(10,478)
Prepaid expenses and other assets	(5,098)	(12,827)
Accounts payable	(1,637)	3,081
Accrued expenses	2,169	4,721
Due to affiliates	(39,818)	(76,997)
Contingent consideration and other liabilities	(3,023)	(22,520)
Deferred revenue	383	1,810
Net cash provided by (used in) operating activities	<u>34,128</u>	<u>(4,642)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash paid for acquisitions and contingent consideration—net of cash acquired	(7,925)	(2,603)
Purchase of fixed assets	(2,835)	(3,232)
Investment and other, net	(17,500)	(5,232)
Net cash used in investing activities	<u>(28,260)</u>	<u>(11,067)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings under credit facilities	524,375	50,000
Repayments of borrowings under credit facilities	(409,173)	(6,174)
Proceeds from issuance of common stock, net	12,119	—
Payments in connection with unit redemption, net	(12,119)	—
Payments in connection with tax receivable agreements	(4,112)	(3,856)
Contingent consideration paid	(4,172)	(10,443)
Payments of debt financing costs	(2,700)	—
Proceeds from exercise of stock options	2,863	422
Payments on finance lease obligations	(33)	—
Distributions for unitholders	(9,055)	(8,209)
Net cash provided by financing activities	<u>97,993</u>	<u>21,740</u>
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	(4)	319
CHANGE IN CASH AND CASH EQUIVALENTS	<u>103,857</u>	<u>6,350</u>
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of period	65,858	310,684
End of period	<u>\$ 169,715</u>	<u>\$ 317,034</u>

See Note 13 for supplemental cash flow disclosure  
See notes to unaudited condensed consolidated financial statements

**FOCUS FINANCIAL PARTNERS INC.**  
**Unaudited condensed consolidated statements of changes in equity**  
**Three months ended March 31, 2021 and 2022**  
**(In thousands, except share amounts)**

	Class A		Class B		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity	Non-controlling Interest	Total Equity
	Shares	Amount	Shares	Amount						
Balance at January 1, 2021	51,158,712	\$ 512	20,661,595	\$ 207	\$ 526,664	\$ 14,583	\$ (2,167)	\$ 539,799	\$ 319,080	\$ 858,879
Net income	—	—	—	—	—	256	—	256	2,226	2,482
Issuance (cancellation) of common stock in connection with offering, net	2,640,369	26	(2,460,732)	(25)	121,983	—	—	121,984	—	121,984
Issuance (cancellation) of common stock in connection with exercise of Focus LLC common unit exchange rights	1,181,759	12	(1,181,759)	(12)	54,869	—	—	54,869	—	54,869
Issuance of common stock in connection with exercise of Focus LLC incentive unit exchange rights	70,465	1	—	—	3,271	—	—	3,272	—	3,272
Exercise of stock options	63,537	—	—	—	2,022	—	—	2,022	—	2,022
Change in non-controlling interest allocation	—	—	—	—	(125,836)	—	—	(125,836)	(51,884)	(177,720)
Non-cash equity compensation expenses	—	—	—	—	1,164	—	—	1,164	—	1,164
Currency translation adjustment-net of tax	—	—	—	—	—	—	(312)	(312)	(129)	(441)
Unrealized gain on interest rate swaps designated as cash flow hedges-net of tax	—	—	—	—	—	—	3,396	3,396	1,855	5,251
Adjustments of deferred taxes, net of amounts payable under tax receivable agreements and changes from Focus LLC interest transactions	—	—	—	—	5,885	—	—	5,885	—	5,885
Balance at March 31, 2021	<u>55,114,842</u>	<u>\$ 551</u>	<u>17,019,104</u>	<u>\$ 170</u>	<u>\$ 590,022</u>	<u>\$ 14,839</u>	<u>\$ 917</u>	<u>\$ 606,499</u>	<u>\$ 271,148</u>	<u>\$ 877,647</u>
Balance at January 1, 2022	65,320,124	\$ 653	11,439,019	\$ 114	\$ 841,753	\$ 24,995	\$ 3,029	\$ 870,544	\$ 246,864	\$ 1,117,408
Net income	—	—	—	—	—	29,102	—	29,102	9,980	39,082
Issuance of units in connection with an acquisition and contingent consideration	—	—	187,795	2	—	—	—	2	—	2
Issuance (cancellation) of common stock in connection with exercise of Focus LLC common unit exchange rights	25,000	—	(25,000)	—	1,107	—	—	1,107	—	1,107
Issuance of common stock in connection with exercise of Focus LLC incentive unit exchange rights	1,956	—	—	—	87	—	—	87	—	87
Exercise of stock options	15,309	—	—	—	422	—	—	422	—	422
Change in non-controlling interest allocation	—	—	—	—	23,747	—	—	23,747	(20,494)	3,253
Non-cash equity compensation expenses	—	—	—	—	1,992	—	—	1,992	—	1,992
Currency translation adjustment-net of tax	—	—	—	—	—	—	2,915	2,915	835	3,750
Unrealized gain on interest rate swaps designated as cash flow hedges-net of tax	—	—	—	—	—	—	14,525	14,525	4,241	18,766
Adjustments of deferred taxes, net of amounts payable under tax receivable agreements and changes from Focus LLC interest transactions	—	—	—	—	(3,251)	—	—	(3,251)	—	(3,251)
Balance at March 31, 2022	<u>65,362,389</u>	<u>\$ 653</u>	<u>11,601,814</u>	<u>\$ 116</u>	<u>\$ 865,857</u>	<u>\$ 54,097</u>	<u>\$ 20,469</u>	<u>\$ 941,192</u>	<u>\$ 241,426</u>	<u>\$ 1,182,618</u>

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**— Focus Financial Partners Inc. (“Focus Inc.”) was formed as a Delaware corporation on July 29, 2015. Focus Inc. is the managing member of Focus Financial Partners, LLC (“Focus LLC”) and operates and controls the businesses and affairs of Focus LLC.

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 are governed by its Fourth Amended and Restated Operating Agreement (the “Operating Agreement”). Focus LLC is in the business of acquiring and overseeing independent fiduciary wealth management and related businesses.

The unaudited condensed consolidated financial statements reflect the results of operations and financial position of Focus Inc. and its subsidiaries (the “Company”).

**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 Focus Inc. and its majority and wholly owned subsidiaries. Focus Inc. consolidates Focus LLC and its subsidiaries’ financial statements and records the interests in Focus LLC consisting of common units, restricted common units and the common unit equivalent of incentive units of Focus LLC that Focus Inc. does not own as non-controlling interests (see Note 3). 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 February 17, 2022.

Operating results for the three months ended March 31, 2022 are not necessarily indicative of the results that may be expected for the year ending December 31, 2022.

**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.



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

The Company disaggregates revenue by wealth management fees and other. The Company does not allocate revenue by the type of service provided in connection with providing holistic wealth management client services. The Company generally manages its business based on the operating results of the enterprise taken as a whole, not by geographic region. The following table disaggregates the revenues based on the location of the partner firm legal entities that generate the revenues and therefore may not be reflective of the geography in which clients are located.

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2021</b>	<b>2022</b>
Domestic revenue	\$ 370,954	\$ 507,311
International revenue	23,221	29,256
Total revenue	<u>\$ 394,175</u>	<u>\$ 536,567</u>

International revenue consists of revenue generated by partner firm legal entities in Australia, Canada and the United Kingdom.

**Recent Accounting Pronouncements**

In March 2020, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) No. 2020-04, “*Facilitation of the Effects of Reference Rate Reform on Financial Reporting.*” ASU No. 2020-04 provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference the London InterBank Offered Rate (“LIBOR”) or another rate that is expected to be discontinued. The amendments in ASU No. 2020-04 are effective for all entities as of March 12, 2020 through December 31, 2022. The adoption of ASU No. 2020-04 did not have a material impact on the Company’s consolidated financial statements; however, the Company will continue to evaluate the impacts, if any, of the provisions of ASU No. 2020-04 on the Company’s debt and hedging arrangements through December 31, 2022.

**3. NON-CONTROLLING INTEREST AND INCOME PER SHARE**

The calculation of controlling and non-controlling interest is as follows as of March 31, 2021 and 2022:

	<b>2021</b>	<b>2022</b>
Focus LLC common units	17,019,104	11,601,814
Focus LLC restricted common units	71,374	193,625
Common unit equivalents of outstanding vested and unvested Focus LLC incentive units(1)	<u>7,006,625</u>	<u>6,998,055</u>
Total common units, restricted common units and common unit equivalents attributable to non-controlling interest	24,097,103	18,793,494
Total common units, restricted common units and common unit equivalents of incentive units outstanding	79,211,945	84,155,883
Non-controlling interest allocation	30.4 %	22.3 %
Company’s interest in Focus LLC	69.6 %	77.7 %

- (1) Focus LLC common units issuable upon conversion of 16,728,882 and 16,202,274 (see Note 9) vested and unvested Focus LLC incentive units outstanding as of March 31, 2021 and 2022, respectively, 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 periods.

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

Basic income per share is calculated utilizing net income attributable to common shareholders divided by the weighted average number of shares of Class A common stock outstanding during the same periods. The calculation of basic income per share is as follows:

	Three Months Ended March 31,	
	2021	2022
Net income attributable to common shareholders	\$ 256	\$ 29,102
Weighted average shares of Class A common stock outstanding	52,200,029	65,331,370
Basic income per share	\$ 0.00	\$ 0.45

Diluted income per share is calculated utilizing net income attributable to common shareholders divided by the weighted average number of shares of Class A common stock outstanding during the same periods plus the effect, if any, of the potentially dilutive shares of the Company's Class A common stock from stock options, restricted stock units and Focus LLC common units, restricted common units and incentive units as calculated using the treasury stock method:

	Three Months Ended March 31,	
	2021	2022
Net income attributable to common shareholders	\$ 256	\$ 29,102
Weighted average shares of Class A common stock outstanding	52,200,029	65,331,370
Effect of dilutive stock options	415,041	407,059
Effect of dilutive restricted stock units	39,752	29,034
Total	52,654,822	65,767,463
Diluted income per share	\$ 0.00	\$ 0.44

Diluted income per share for the three months ended March 31, 2021 and 2022 excludes shares related to 155,000 market-based stock options, as modified, that vest on the sixth anniversary of the pricing of the Company's initial public offering ("IPO") with vesting based on the highest volume weighted average per share price for any ninety-calendar day period ("90-day VWAP") prior to the anniversary, with 0% vesting if the highest 90-day VWAP is \$80.00 or less and 100% vesting if the highest 90-day VWAP is \$110.00 or more, with linear interpolation in between (see Note 9). Such market-based criteria were not met at March 31, 2021 and 2022.

Focus LLC common, restricted common and incentive units may be exchanged for the Company's Class A common stock, subject to certain limitations (see Note 9). In computing the dilutive effect, if any, that the exchange would have on net income per share, net income attributable to Class A common shareholders would be adjusted due to the elimination of the non-controlling interests (including any associated tax impact). For the three months ended March 31, 2021 and 2022, such exchange is not reflected in diluted net income per share as the assumed exchange is not dilutive.

**FOCUS FINANCIAL PARTNERS INC.****Notes to unaudited condensed consolidated financial statements (continued)****(In thousands, except unit data, share and per share amounts)****4. ACQUISITIONS****Asset Acquisition**

The Company 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*. Total purchase consideration for asset acquisitions during the three months ended March 31, 2022 consisted of cash of \$875 and contingent consideration, the amount of which will be determined when the outcome is determinable.

The weighted-average useful lives of intangible assets acquired during the three months ended March 31, 2022 are as follows:

	<b>Number of years</b>
Customer relationships	5
Other acquired intangibles	5
Weighted-average useful life of all intangibles acquired	5

From April 1, 2022 to May 5, 2022, the Company completed four business acquisitions for cash, including cash due subsequent to closing, and equity, inclusive of the issuance of 512,290 shares of Class B common stock, of \$263,188, plus contingent consideration.

**5. GOODWILL AND OTHER INTANGIBLE ASSETS**

The following table summarizes the change in the goodwill balances for the year ended December 31, 2021 and the three months ended March 31, 2022:

	<b>December 31, 2021</b>	<b>March 31, 2022</b>
Balance beginning of period:		
Goodwill	\$ 1,278,183	\$ 1,947,939
Cumulative impairment losses	(22,624)	(22,624)
	<u>1,255,559</u>	<u>1,925,315</u>
Goodwill acquired	677,195	—
Other	(7,439)	2,820
	<u>669,756</u>	<u>2,820</u>
Balance end of period:		
Goodwill	1,947,939	1,950,759
Cumulative impairment losses	(22,624)	(22,624)
	<u>\$ 1,925,315</u>	<u>\$ 1,928,135</u>

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

The following table summarizes the amortizing acquired intangible assets at December 31, 2021:

	<u>Gross Carry Amount</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Customer relationships	\$ 2,228,461	\$ (787,016)	\$ 1,441,445
Management contracts	191,578	(57,153)	134,425
Other acquired intangibles	10,911	(5,062)	5,849
Total	<u>\$ 2,430,950</u>	<u>\$ (849,231)</u>	<u>\$ 1,581,719</u>

The following table summarizes the amortizing acquired intangible assets at March 31, 2022:

	<u>Gross Carry Amount</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Customer relationships	\$ 2,232,141	\$ (844,289)	\$ 1,387,852
Management contracts	191,665	(60,000)	131,665
Other acquired intangibles	10,988	(5,503)	5,485
Total	<u>\$ 2,434,794</u>	<u>\$ (909,792)</u>	<u>\$ 1,525,002</u>

**6. 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 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.

**FOCUS FINANCIAL PARTNERS INC.****Notes to unaudited condensed consolidated financial statements (continued)****(In thousands, except unit data, share and per share amounts)***Marketable securities*

At March 31, 2022, the fair value of the Company's investment in a mutual fund was \$16,724. The fair value was determined using Level 1 inputs.

*First Lien Term Loan*

The implied fair value of the Company's First Lien Term Loan (as defined below) based on Level 2 inputs at December 31, 2021 and March 31, 2022 are as follows:

	<u>December 31, 2021</u>		<u>March 31, 2022</u>	
	<u>Stated Value</u>	<u>Fair Value</u>	<u>Stated Value</u>	<u>Fair Value</u>
First Lien Term Loan - Tranche A	\$ 1,610,928	\$ 1,598,846	\$ 1,606,755	\$ 1,580,645
First Lien Term Loan - Tranche B	796,374	792,392	794,373	783,450

*Derivatives*

At December 31, 2021 and March 31, 2022, the fair value of the Company's \$850,000 notional amount interest rate swap agreements was \$5,810 and \$29,593, respectively, which is included in prepaid expenses and other assets in the accompanying unaudited condensed consolidated balance sheets. The fair value was based on Level 2 inputs which included the relevant interest rate forward curves.

*Business acquisitions*

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

The following table represents changes in the fair value of estimated contingent consideration for business acquisitions for the year ended December 31, 2021 and the three months ended March 31, 2022:

Balance at January 1, 2021	\$ 169,670
Additions to estimated contingent consideration	212,074
Payments of contingent consideration	(143,107)
Non-cash changes in fair value of estimated contingent consideration	112,416
Other	(1,026)
Balance at December 31, 2021	<u>\$ 350,027</u>
Additions to estimated contingent consideration	—
Payments of contingent consideration	(43,190)
Non-cash changes in fair value of estimated contingent consideration	(8,985)
Other	735
Balance at March 31, 2022	<u>\$ 298,587</u>

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

**FOCUS FINANCIAL PARTNERS INC.**

**Notes to unaudited condensed consolidated financial statements (continued)**

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

At December 31, 2021 and March 31, 2022, amounts due to sellers in connection with business acquisitions of \$114,156 and \$113,987, respectively, are included in contingent consideration and other liabilities in the unaudited condensed consolidated balance sheets.

During the year ended December 31, 2021, the Company paid \$131,827 in cash and issued \$11,280 in Focus LLC common units as contingent consideration associated with business acquisitions. During the three months ended March 31, 2022, the Company paid \$33,492 in cash and issued \$9,698 in Focus LLC common units as contingent consideration associated with business acquisitions.

During the three months ended March 31, 2021 and 2022, the Company paid cash of \$591 and \$728, respectively, as contingent consideration associated with asset acquisitions. These amounts are included in cash paid for acquisitions and contingent consideration—net of cash acquired in investing activities in the unaudited condensed consolidated statement of cash flows.

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

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

Inputs used in the fair value measurement of estimated contingent consideration at December 31, 2021 and March 31, 2022 are summarized below:

Quantitative Information About Level 3 Fair Value Measurements			
Fair Value at December 31, 2021	Valuation Techniques	Unobservable Inputs	Ranges
\$ 350,027	Monte Carlo Simulation Model	Forecasted growth rates	0.7% - 20.1 %
		Discount rates	9.0% - 15.0 %

  

Quantitative Information About Level 3 Fair Value Measurements			
Fair Value at March 31, 2022	Valuation Techniques	Unobservable Inputs	Ranges
\$ 298,587	Monte Carlo Simulation Model	Forecasted growth rates	(9.1)% - 32.1 %
		Discount rates	10.0% - 17.0 %

**7. CREDIT FACILITY**

As of March 31, 2022, Focus LLC's credit facility (the "Credit Facility") consisted of a \$2,401,128 first lien term loan (the "First Lien Term Loan"), consisting of a tranche A ("Tranche A") and tranche B ("Tranche B"), and a \$650,000 first lien revolving credit facility (the "First Lien Revolver").

**FOCUS FINANCIAL PARTNERS INC.**

**Notes to unaudited condensed consolidated financial statements (continued)**

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

Tranche A bears interest (at Focus LLC's option) at: (i) LIBOR plus a margin of 2.00% or (ii) the lender's Base Rate (as defined in the Credit Facility) plus a margin of 1.00%. Tranche A requires quarterly installment repayments of \$4,173 and has a maturity date of July 2024.

Tranche B bears interest (at Focus LLC's option) at: (i) LIBOR plus a margin of 2.50% with a 0.50% LIBOR floor or (ii) the lender's Base Rate plus a margin of 1.50%. Tranche B requires quarterly installment repayments of \$2,001 and has a maturity date of June 2028.

In April 2022, Focus LLC amended the First Lien Revolver to extend the maturity date to June 2024 and change the benchmark interest rate from LIBOR to the Secured Overnight Financing Rate ("SOFR"). As amended, the First Lien Revolver bears interest (at Focus LLC's option) at SOFR, including a credit adjustment spread, 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. Up to \$30,000 of the First Lien Revolver is available for the issuance of letters of credit, subject to certain limitations. In connection with the amendment, Focus LLC incurred \$975 in estimated debt financing costs.

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 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, 2022, Focus LLC's First Lien Leverage Ratio was 3.84:1.00, 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). Consolidated EBITDA for purposes of the Credit Facility was \$556,172 at March 31, 2022. Focus LLC is also subject on an annual basis to contingent principal payments based on an excess cash flow calculation (as defined in the Credit Facility) for any fiscal year if the First Lien Leverage Ratio exceeds 3.75:1.00. No contingent principal payments were required to be made in 2021. Based on the excess cash flow calculation for the year ended December 31, 2021, no contingent principal payments are required to be made in 2022.

The Company defers and amortizes its debt financing costs over the respective terms and tranches 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.

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

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, 2021 and March 31, 2022:

	December 31, 2021	March 31, 2022
First Lien Term Loan - Tranche A	\$ 1,610,928	\$ 1,606,755
First Lien Term Loan - Tranche B	796,374	794,373
First Lien Revolver	—	50,000
Unamortized debt financing costs	(7,523)	(7,096)
Unamortized discount	(6,110)	(5,849)
Total	<u>\$ 2,393,669</u>	<u>\$ 2,438,183</u>

At December 31, 2021 and March 31, 2022, unamortized debt financing costs associated with the First Lien Revolver of \$4,254 and \$3,580, respectively, were recorded in debt financing costs-net in the unaudited condensed consolidated balance sheets.

Weighted-average interest rates for outstanding borrowings were approximately 3% for the year ended December 31, 2021 and the three months ended March 31, 2022.

As of December 31, 2021 and March 31, 2022, the First Lien Revolver available unused commitment line was \$642,085 and \$590,249, respectively.

As of December 31, 2021 and March 31, 2022, Focus LLC was contingently obligated for letters of credit in the amount of \$7,915 and \$9,751, respectively, each bearing interest at an annual rate of approximately 2%.

**8. DERIVATIVES**

At March 31, 2022, the Company has (i) a 4 year floating to fixed interest rate swap with a notional amount of \$400,000 that was entered into in March 2020, the terms of which provide that the Company pays interest to the counterparty each month at a rate of 0.713% and receives interest from the counterparty each month at the 1 month USD LIBOR rate, subject to a 0% floor and (ii) two 4 year floating to fixed interest rate swap agreements with notional amounts of \$250,000 and \$200,000, that were entered into in April 2020, the terms of which provide that the Company pays interest to the counterparties each month at a rate of 0.537% and 0.5315%, respectively, and receives interest from the counterparties each month at the 1 month USD LIBOR rate, subject to a 0% floor. The interest rate swaps effectively fix the variable interest rate applicable to \$850,000 of borrowings outstanding on the First Lien Term Loan. The Company designated these swaps as cash flow hedges of the Company's exposure to the variability of the payment of interest on these portions of its First Lien Term Loan borrowings.

At December 31, 2021 and March 31, 2022, the fair value of the interest rate swaps was \$5,810 and \$29,593, respectively, which is included in prepaid expenses and other assets in the accompanying unaudited condensed consolidated balance sheets. The interest rate swaps continue to be effective hedges, and as such, the offsetting adjustment to the fair value is recorded in accumulated other comprehensive income, net of tax of \$1,194 and \$6,211 at December 31, 2021 and March 31, 2022, respectively.



**FOCUS FINANCIAL PARTNERS INC.****Notes to unaudited condensed consolidated financial statements (continued)****(In thousands, except unit data, share and per share amounts)****9. EQUITY****Exchange rights**

Each Focus LLC common unit, together with a corresponding share of Focus Inc.'s 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 Agreement, for one share of Focus Inc.'s Class A common stock, or, if either Focus Inc. or Focus LLC so elects, cash.

In March 2022, the Company issued an aggregate of 26,956 shares of Class A common stock and retired 25,000 shares of Class B common stock and 4,250 incentive units in Focus LLC, and acquired 26,956 common units in Focus LLC, in each case as part of the regular quarterly exchanges offered to holders of units in Focus LLC.

**Other**

In February 2022, Focus LLC issued 187,795 common units and Focus Inc. issued a corresponding number of shares of Class B common stock in connection with a contingent consideration payment.

**Stock Options and Restricted Stock Units**

The following table provides information relating to the changes in the Company's stock options during the three months ended March 31, 2022:

	Stock Options	Weighted Average Exercise Price
Outstanding—January 1, 2022	1,931,868	\$ 37.47
Granted	350,048	51.73
Exercised	(15,309)	27.60
Forfeited	(36,079)	55.71
Outstanding—March 31, 2022	<u>2,230,528</u>	39.48
Vested—March 31, 2022	<u>839,770</u>	31.61

The Company uses the Black-Scholes option-pricing model to determine the fair value of time-based stock options. The determination of the fair value using the Black-Scholes option-pricing model is affected by the price of Focus Inc.'s Class A common stock, as well as by assumptions regarding a number of complex and subjective variables. These variables include the Company's expected unit price volatility over the term of the stock option, expected term, risk-free interest rates and expected dividend yield.

The estimated grant-date fair value of the time-based stock option grants during the three months ended March 31, 2022 were calculated based on the following weighted-average assumptions:

Expected term	6.3 years
Expected stock price volatility	34 %
Risk-free interest rate	1.85 %
Expected dividend yield	— %
Weighted average grant date fair value	\$ 19.09

**FOCUS FINANCIAL PARTNERS INC.**

**Notes to unaudited condensed consolidated financial statements (continued)**

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

The following table provides information relating to the changes in the Company's restricted stock units during the three months ended March 31, 2022:

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Outstanding—January 1, 2022	187,756	\$ 47.69
Granted	—	—
Forfeited	(11,668)	47.15
Vested	—	—
Outstanding—March 31, 2022	<u>176,088</u>	47.72

In connection with the IPO, the Company granted market-based stock options to purchase an aggregate of 155,000 shares of Class A common stock that would have vested on the fifth anniversary of the IPO if the 90-day VWAP within such five year period immediately following the IPO reaches at least \$100. In March 2022, these stock options were modified whereby the stock options will vest in July 2024, the sixth anniversary of the pricing of the Company's IPO, with vesting based on the highest 90-day VWAP prior to the anniversary, with 0% vesting if the highest 90-day VWAP is \$80.00 or less and 100% vesting if the highest 90-day VWAP is \$110.00 or more, with linear interpolation in between. The vested stock options can only be exercised in accordance with the following schedule: (i) a total of 25% of the vested stock options may be exercised on and following the date of vesting, (ii) an additional 25% (for a total of 50%) of the vested stock options may be exercised on and following the first anniversary of the date of vesting in July 2025, and (iii) an additional 50% (for a total of 100%) of the vested stock options may be exercised on and following the second anniversary of the date of vesting in July 2026. In connection with the modification, the Company will recognize incremental non-cash equity compensation expense of \$518 from the modification date through July 2026.

The Company recognized \$1,164 and \$1,992 of non-cash equity compensation expense in relation to the stock options and restricted stock units during the three months ended March 31, 2021 and 2022, respectively.

**Focus LLC Restricted Common Units and Focus LLC Incentive Units**

The following table provides information relating to the changes in Focus LLC restricted common units during the three months ended March 31, 2022:

	Restricted Common Units	Weighted Average Grant Date Fair Value
Outstanding—January 1, 2022	193,625	\$ 54.70
Granted	—	—
Forfeited	—	—
Vested	—	—
Outstanding—March 31, 2022	<u>193,625</u>	54.70

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

The following table provides information relating to the changes in Focus LLC incentive units during the three months ended March 31, 2022:

	<b>Incentive Units</b>	<b>Weighted Average Hurdle Price</b>
Outstanding—January 1, 2022	16,146,524	\$ 26.44
Granted	60,000	43.07
Exchanged	(4,250)	27.00
Forfeited	—	—
Outstanding—March 31, 2022	<u>16,202,274</u>	26.51
Vested—March 31, 2022	<u>9,817,878</u>	20.47

The Company uses the Black-Scholes option-pricing model to determine the fair value of time-based incentive units. The determination of the fair value using the Black-Scholes option-pricing model is affected by the Company's estimated common unit price, as well as by assumptions regarding a number of complex and subjective variables. These variables include the Company's expected unit price volatility over the term of the incentive unit, expected term, risk-free interest rates and expected dividend yield.

The estimated grant-date fair value of the time-based incentive unit grants during the three months ended March 31, 2022 was calculated based on the following weighted-average assumptions:

Expected term	5.0 years
Expected stock price volatility	34 %
Risk-free interest rate	1.71 %
Expected dividend yield	— %
Weighted average grant date fair value	\$ 14.16

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

Incentive units outstanding and vested at March 31, 2022 were as follows:

<b>Hurdle Rates</b>	<b>Number Outstanding</b>	<b>Vested Incentive Units</b>
\$1.42	421	421
5.50	798	798
6.00	386	386
7.00	1,081	1,081
9.00	708,107	708,107
11.00	813,001	813,001
12.00	513,043	513,043
13.00	540,000	540,000
14.00	10,098	10,098
16.00	45,191	45,191
17.00	20,000	20,000
19.00	527,928	527,928
21.00	3,045,236	3,045,236
22.00	821,417	821,417
23.00	524,828	524,828
26.26	12,500	—
27.00	12,484	12,484
27.90	1,929,424	931,758
28.50	1,440,230	1,051,459
30.48	30,000	10,000
33.00	3,617,500	7,500
36.64	30,000	20,000
43.07	60,000	—
43.50	30,000	10,000
44.71	806,324	203,142
58.50	662,277	—
	<u>16,202,274</u>	<u>9,817,878</u>

In connection with the IPO, Focus LLC granted 3,845,000 market-based incentive units with a hurdle rate of \$33.00 that would have vested on the fifth anniversary of the IPO if the 90-day VWAP within such five year period immediately following the IPO reaches at least \$100. In March 2022, these incentive units were modified whereby the incentive units will vest in July 2024, the sixth anniversary of the pricing of the Company's IPO, with vesting based on the highest 90-day VWAP prior to the anniversary, with 0% vesting if the highest 90-day VWAP is \$80.00 or less and 100% vesting if the highest 90-day VWAP is \$110.00 or more, with linear interpolation in between. The vested incentive units can only be exchanged for Class A common stock in accordance with the following schedule: (i) a total of 25% of the vested incentive units may be exchanged on and following the date of vesting, (ii) an additional 25% (for a total of 50%) of the vested incentive units may be exchanged on and following the first anniversary of the date of vesting in July 2025, and (iii) an additional 50% (for a total of 100%) of the vested incentive units may be exchanged on and following the second anniversary of the date of vesting in July 2026. In connection with the modification, the Company will recognize incremental non-cash equity compensation expense of \$10,144 from the modification date through July 2024, the sixth anniversary of the IPO.

The Company recorded \$11,192 and \$4,715 of non-cash equity compensation expense for incentive units and restricted common units during the three months ended March 31, 2021 and 2022, 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 for the three months ended March 31, 2022 was 28.6% as compared to 45.1% for the year ended December 31, 2021. Income tax expense for the three months ended March 31, 2022 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 income 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, 2022, there were no changes to the Company's uncertain tax positions.

**11. TAX RECEIVABLE AGREEMENTS**

In connection with the IPO and the reorganization transactions that occurred in connection with the IPO, Focus Inc. entered into two tax receivable agreements: one with certain entities affiliated with the private equity investors of Focus LLC and the other with certain other continuing and former owners of Focus LLC. In March 2020, Focus Inc. entered into an additional tax receivable agreement (the three agreements, collectively, the "Tax Receivable Agreements") for tax receivable agreement holders that join Focus LLC as members after the closing of the IPO (the parties to the Tax Receivable Agreements, collectively, the "TRA Holders"). New Focus LLC owners in the future may also become party to this additional Tax Receivable Agreement. The Tax Receivable 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 connection with the reorganization transactions that occurred in connection with the IPO and in periods after the IPO or after entering into the Tax Receivable Agreements, as applicable, as a result of certain increases in tax bases and certain tax benefits attributable to imputed interest. Focus Inc. will retain the benefit of the remaining 15% of these cash savings.

As of March 31, 2022, the Company had recorded a liability of \$215,999 relating 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 the amount recorded. During the three months ended March 31, 2022, payments totaling \$3,856 were made under the Tax Receivable Agreements.

**12. 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, 2021 and March 31, 2022, 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, SOFR or Base Rate) in connection with its Credit Facility.

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

The counterparties to the Company's derivative financial instruments are major international financial institutions. The Company is exposed to credit risk for the net exchanges under these agreements, but not for the notional amounts. The Company does not anticipate non-performance by any of its counterparties.

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, 2021 and March 31, 2022, 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 and its subsidiaries are involved in lawsuits, regulatory matters 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. One of the Company's subsidiaries has settled most of the investor demands related to a private fund (that held approximately \$27 million in client assets) during the year ended December 31, 2021. The Company has notified its insurance carriers of the matter. Management, after 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 and its subsidiaries receive requests for information from governmental authorities regarding business activities. The Company has cooperated and plans to continue to cooperate with all governmental authorities. 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 material 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.

**13. CASH FLOW INFORMATION**

	Three Months Ended	
	March 31,	
	2021	2022
Supplemental disclosures of cash flow information—cash paid for:		
Interest	\$ 10,267	\$ 16,506
Income taxes	\$ 3,739	\$ 10,066
Supplemental non-cash cash flow information:		
Fair market value of estimated contingent consideration in connection with acquisitions	\$ 6,187	\$ —

**FOCUS FINANCIAL PARTNERS INC.**

**Notes to unaudited condensed consolidated financial statements (continued)**

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

**14. RELATED PARTIES**

The Company's Chief Executive Officer, through an entity owned and controlled by him, owns a personal aircraft that was acquired without Company resources that he uses for business travel. 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, 2021 and 2022, the Company recognized expenses of \$603 and \$1,095, respectively, related to these reimbursements. Given the geography of the Company's partner firms and prospects, the Company believes that the use of private aircraft creates efficiencies to enhance the productivity of the Company's Chief Executive Officer and certain other authorized personnel.

At March 31, 2022, affiliates of certain holders of the Company's Class A common stock and Class B common stock were lenders under the Credit Facility.

## 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.” refer to Focus Financial Partners Inc. and its consolidated subsidiaries. “Focus LLC” refers to Focus Financial Partners, LLC, a Delaware limited liability company and our consolidated subsidiary.

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 as of and for the three months ended March 31, 2021 and 2022.

### 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, 2021, as filed with the Securities and Exchange Commission (“SEC”) on February 17, 2022, 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;
- our reliance on key vendors;
- write down of goodwill and other intangible assets;
- our failure to maintain and properly safeguard an adequate technology infrastructure;
- cyber-attacks and other disruptions;



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- our inability to recover from business continuity problems;
- inadequate insurance coverage;
- impact of the novel coronavirus (“Covid-19”) outbreak on our business;
- 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;
- worsening economic conditions, including inflation, in the United States or internationally;
- wars or other geopolitical conflict;
- changes to laws and regulations;
- legal proceedings, governmental inquiries; and
- other factors discussed in this Quarterly Report on Form 10-Q, including in Part II, Item 1A. “Risk Factors”.

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 80 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 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 as part of a scaled business model with aligned economic interests, while retaining their entrepreneurial culture and independence.

Our partnership is comprised of trusted professionals providing comprehensive wealth management services through 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 EBPC 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 may consist of cash or a combination 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”). Under a management agreement between our operating subsidiary and the



## **Operating Expenses**

Our operating expenses consist of compensation and related expenses, management fees, selling, general and administrative expenses, 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 and wages, including variable compensation, 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 generally retain a 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.

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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 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%.

	<u>Projected Revenues</u>	<u>+10% Growth in Revenues</u>	<u>-10% Growth in Revenues</u>
	(in thousands)		
<b>New Partner Firm</b>			
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	—
<b>Focus Inc.</b>			
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.

*Intangible Amortization*

Amortization of intangibles consists primarily 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 for acquisitions of new partner firms is generally paid over a six-year period upon the satisfaction of specified growth thresholds, in years three and six. These growth thresholds are typically tied to the compound annual growth rate (“CAGR”) of the partner firm’s earnings. Such growth thresholds can be set annually or for different time frames as well, for example, annually over a six-year period. The contingent consideration for acquisitions made by our partner firms is paid upon the satisfaction of specified financial thresholds. These thresholds are generally tied to revenue as adjusted for certain criteria or other operating metrics based on the retention or growth of the business

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acquired. These arrangements may result in the payment of additional purchase price consideration to the sellers for periods following the closing of an acquisition. Contingent consideration payments are typically payable in cash and, in some cases, equity.

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 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.

**Recent Developments**

From April 1, 2022 to the date of this Quarterly Report, we completed four business acquisitions (accounted for in accordance with the Financial Accounting Standards Board Accounting Standards Codification Topic 805: *Business Combinations*) consisting of an acquisition of a new partner firm and acquisitions by partner firms. The estimated Acquired Base Earnings associated with the acquisition of the new partner firm during this period is approximately \$11.5 million. Furthermore, we have signed a definitive purchase agreement to acquire an additional partner firm with an estimated Acquired Base Earnings of \$5.4 million. This pending transaction is generally on terms and in a structure consistent with past transactions, and the closing is subject to customary closing conditions. Among other risks and uncertainties, there can be no guarantee that this pending acquisition will be completed. For additional information regarding Acquired Base Earnings, please see “—How We Evaluate Our Business.”

**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, 2021 and 2022 include the following:

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	Three Months Ended March 31,	
	2021	2022
(dollars in thousands, except per share data)		
<b>Revenue Metrics:</b>		
Revenues	\$ 394,175	\$ 536,567
Revenue growth (1) from prior period	16.9 %	36.1 %
Organic revenue growth (2) from prior period	12.2 %	22.0 %
<b>Management Fees Metrics (operating expense):</b>		
Management fees	\$ 102,072	\$ 137,839
Management fees growth (3) from prior period	22.0 %	35.0 %
Organic management fees growth (4) from prior period	15.7 %	21.6 %
<b>Net Income Metrics:</b>		
Net income	\$ 2,482	\$ 39,082
Net income growth from prior period	*	*
Income per share of Class A common stock:		
Basic	\$ 0.00	\$ 0.45
Diluted	\$ 0.00	\$ 0.44
Income per share of Class A common stock growth from prior period:		
Basic	*	*
Diluted	*	*
<b>Adjusted EBITDA Metrics:</b>		
Adjusted EBITDA (5)	\$ 100,995	\$ 135,080
Adjusted EBITDA growth (5) from prior period	29.4 %	33.7 %
<b>Adjusted Net Income Excluding Tax Adjustments Metrics:</b>		
Adjusted Net Income Excluding Tax Adjustments (5)	\$ 63,449	\$ 83,073
Adjusted Net Income Excluding Tax Adjustments growth (5) from prior period	39.4 %	30.9 %
<b>Tax Adjustments</b>		
Tax Adjustments (5)(6)	\$ 10,492	\$ 14,813
Tax Adjustments growth from prior period (5)(6)	17.4 %	41.2 %
<b>Adjusted Net Income Excluding Tax Adjustments Per Share and Tax Adjustments Per Share Metrics:</b>		
Adjusted Net Income Excluding Tax Adjustments Per Share (5)	\$ 0.80	\$ 0.98
Tax Adjustments Per Share (5)(6)	\$ 0.13	\$ 0.18
Adjusted Net Income Excluding Tax Adjustments Per Share growth (5) from prior period	29.0 %	22.5 %
Tax Adjustments Per Share growth from prior period (5)(6)	8.3 %	38.5 %
<b>Adjusted Shares Outstanding</b>		
Adjusted Shares Outstanding (5)	79,606,295	84,579,820
<b>Other Metrics:</b>		
Net Leverage Ratio (7) at period end	3.79x	3.84x
Acquired Base Earnings (8)	\$ 663	—
Number of partner firms at period end (9)	72	84

\* Not meaningful

- (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, including Connecticut, 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.

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- (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 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 Excluding Tax Adjustments, Adjusted Net Income Excluding Tax Adjustments Per Share, Tax Adjustments, Tax Adjustments Per Share and Adjusted Shares Outstanding, including a reconciliation of Adjusted EBITDA, Adjusted Net Income Excluding Tax Adjustments and Adjusted Net Income Excluding Tax Adjustments Per Share to the most directly comparable GAAP financial measure, please read “—Adjusted EBITDA” and “—Adjusted Net Income Excluding Tax Adjustments and Adjusted Net Income Excluding Tax Adjustments Per Share.”
- (6) Tax Adjustments represent the tax benefits of intangible assets, including goodwill, associated with deductions allowed for tax amortization of intangible assets in the respective periods based on a pro forma 27% income tax rate. Such amounts were generated from acquisitions completed where we received a step-up in basis for tax purposes. Acquired intangible assets may be amortized for tax purposes, generally over a 15-year period. Due to our acquisitive nature, tax deductions allowed on acquired intangible assets provide additional significant supplemental economic benefit. The tax benefit from amortization is included to show the full economic benefit of deductions for acquired intangible assets with the step-up in tax basis. As of March 31, 2022, estimated Tax Adjustments from intangible asset related income tax benefits from closed acquisitions based on a pro forma 27% income tax rate for the next 12 months is \$58,519.
- (7) Net Leverage Ratio represents the First Lien Leverage Ratio (as defined in the Credit Facility), and 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).
- (8) 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 collective preferred position in Base Earnings or comparable measures. 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.
- (9) Represents the number of partner firms on the last day of the period presented.

***Adjusted EBITDA***

Adjusted EBITDA is a non-GAAP measure. Adjusted EBITDA is defined as net income excluding interest income, interest expense, income tax expense, amortization of debt financing costs, intangible amortization and impairments, if any, depreciation and other amortization, non-cash equity compensation expense, non-cash changes in

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fair value of estimated contingent consideration, other (income) expense-net and secondary offering expenses, 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;
- for planning purposes, including the preparation of budgets and forecasts;
- to allocate resources to enhance the financial performance of our business;
- to evaluate the effectiveness of our business strategies; and
- as a consideration in determining compensation for certain employees.

Adjusted EBITDA does not purport to be an alternative to net income 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, 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.



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Set forth below is a reconciliation of net income to Adjusted EBITDA for the three months ended March 31, 2021 and 2022:

	Three Months Ended	
	March 31,	
	2021	2022
	(in thousands)	
Net income	\$ 2,482	\$ 39,082
Interest income	(47)	(3)
Interest expense	10,521	17,616
Income tax expense	1,186	15,617
Amortization of debt financing costs	852	1,101
Intangible amortization	42,983	60,276
Depreciation and other amortization	3,607	3,633
Non-cash equity compensation expense	12,356	6,707
Non-cash changes in fair value of estimated contingent consideration	25,936	(8,985)
Other (income) expense, net	(3)	36
Secondary offering expenses	1,122	—
Adjusted EBITDA	<u>\$ 100,995</u>	<u>\$ 135,080</u>

***Adjusted Net Income Excluding Tax Adjustments and Adjusted Net Income Excluding Tax Adjustments Per Share***

We analyze our performance using Adjusted Net Income Excluding Tax Adjustments and Adjusted Net Income Excluding Tax Adjustments Per Share. Adjusted Net Income Excluding Tax Adjustments and Adjusted Net Income Excluding Tax Adjustments Per Share are non-GAAP measures. We define Adjusted Net Income Excluding Tax Adjustments as net income excluding income tax expense, 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 and secondary offering expenses, if any. The calculation of Adjusted Net Income Excluding Tax Adjustments also includes adjustments to reflect a pro forma 27% income tax rate reflecting the estimated U.S. Federal, state, local and foreign income tax rates applicable to corporations in the jurisdictions we conduct business.

Adjusted Net Income Excluding Tax Adjustments Per Share is calculated by dividing Adjusted Net Income Excluding Tax Adjustments by the Adjusted Shares Outstanding. Adjusted Shares Outstanding includes: (i) the weighted average shares of Class A common stock outstanding during the periods, (ii) the weighted average incremental shares of Class A common stock related to stock options outstanding during the periods, (iii) the weighted average incremental shares of Class A common stock related to restricted stock units outstanding during the periods, (iv) the weighted average number of Focus LLC common units outstanding during the periods (assuming that 100% of such Focus LLC common units, including contingently issuable Focus LLC common units, if any, have been exchanged for Class A common stock), (v) the weighted average number of Focus LLC restricted common units outstanding during the periods (assuming that 100% of such Focus LLC restricted common units have been exchanged for Class A common stock) and (vi) the weighted average number of common unit equivalents of Focus LLC vested and unvested incentive units outstanding during the periods based on the closing price of our Class A common stock on the last trading day of the periods (assuming that 100% of such Focus LLC common units have been exchanged for Class A common stock).

We believe that Adjusted Net Income Excluding Tax Adjustments and Adjusted Net Income Excluding Tax Adjustments 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;

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- 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.

Adjusted Net Income Excluding Tax Adjustments and Adjusted Net Income Excluding Tax Adjustments Per Share do not purport to be an alternative to net income or cash flows from operating activities. The terms Adjusted Net Income Excluding Tax Adjustments and Adjusted Net Income Excluding Tax Adjustments Per Share are not defined under GAAP, and Adjusted Net Income Excluding Tax Adjustments and Adjusted Net Income Excluding Tax Adjustments Per Share are not a measure of net income, operating income or any other performance or liquidity measure derived in accordance with GAAP. Therefore, Adjusted Net Income Excluding Tax Adjustments and Adjusted Net Income Excluding Tax Adjustments 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 Excluding Tax Adjustments and Adjusted Net Income Excluding Tax Adjustments Per Share do not reflect all cash expenditures, future requirements for capital expenditures or contractual commitments;
- Adjusted Net Income Excluding Tax Adjustments and Adjusted Net Income Excluding Tax Adjustments 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 Excluding Tax Adjustments and Adjusted Net Income Excluding Tax Adjustments Per Share differently than we do, limiting its usefulness as a comparative measure.

In addition, Adjusted Net Income Excluding Tax Adjustments and Adjusted Net Income Excluding Tax Adjustments 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 Excluding Tax Adjustments and Adjusted Net Income Excluding Tax Adjustments Per Share as supplemental information.

### ***Tax Adjustments and Tax Adjustments Per Share***

Tax Adjustments represent the tax benefits of intangible assets, including goodwill, associated with deductions allowed for tax amortization of intangible assets in the respective periods based on a pro forma 27% income tax rate. Such amounts were generated from acquisitions completed where we received a step-up in basis for tax purposes. Acquired intangible assets may be amortized for tax purposes, generally over a 15-year period. Due to our acquisitive nature, tax deductions allowed on acquired intangible assets provide additional significant supplemental economic

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benefit. The tax benefit from amortization is included to show the full economic benefit of deductions for acquired intangible assets with the step-up in tax basis.

Tax Adjustments Per Share is calculated by dividing Tax Adjustments by the Adjusted Shares Outstanding.

Set forth below is a reconciliation of net income to Adjusted Net Income Excluding Tax Adjustments and Adjusted Net Income Excluding Tax Adjustments Per Share for the three months ended March 31, 2021 and 2022:

	Three Months Ended March 31,	
	2021	2022
	(dollars in thousands, except per share data)	
Net income	\$ 2,482	\$ 39,082
Income tax expense	1,186	15,617
Amortization of debt financing costs	852	1,101
Intangible amortization	42,983	60,276
Non-cash equity compensation expense	12,356	6,707
Non-cash changes in fair value of estimated contingent consideration	25,936	(8,985)
Secondary offering expenses (1)	1,122	—
Subtotal	86,917	113,798
Pro forma income tax expense (27%) (2)	(23,468)	(30,725)
Adjusted Net Income Excluding Tax Adjustments	\$ 63,449	\$ 83,073
Tax Adjustments (3)	\$ 10,492	\$ 14,813
Adjusted Net Income Excluding Tax Adjustments Per Share	\$ 0.80	\$ 0.98
Tax Adjustments Per Share (3)	\$ 0.13	\$ 0.18
Adjusted Shares Outstanding	79,606,295	84,579,820
Calculation of Adjusted Shares Outstanding:		
Weighted average shares of Class A common stock outstanding—basic (4)	52,200,029	65,331,370
Adjustments:		
Weighted average incremental shares of Class A common stock related to stock options and restricted stock units (5)	454,793	436,093
Weighted average Focus LLC common units outstanding (6)	19,723,223	11,621,814
Weighted average Focus LLC restricted common units outstanding (7)	71,374	193,625
Weighted average common unit equivalent of Focus LLC incentive units outstanding (8)	7,156,876	6,996,918
Adjusted Shares Outstanding	79,606,295	84,579,820

- (1) Relates to offering expenses associated with the March 2021 secondary equity offering.
- (2) The pro forma income tax rate of 27% reflects the estimated U.S. Federal, state, local and foreign income tax rates applicable to corporations in the jurisdictions we conduct business.
- (3) Tax Adjustments represent the tax benefits of intangible assets, including goodwill, associated with deductions allowed for tax amortization of intangible assets in the respective periods based on a pro forma 27% income tax rate. Such amounts were generated from acquisitions completed where we received a step-up in basis for tax purposes. Acquired intangible assets may be amortized for tax purposes, generally over a 15-year period. Due to our acquisitive nature, tax deductions allowed on acquired intangible assets provide additional significant supplemental economic benefit. The tax benefit from amortization is included to show the full economic benefit of deductions for acquired intangible assets with the step-up in tax basis. As of March 31, 2022, estimated Tax Adjustments from intangible asset related income tax benefits from closed acquisitions based on a pro forma 27% income tax rate for the next 12 months is \$58,519.
- (4) Represents our GAAP weighted average Class A common stock outstanding—basic.

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- (5) Represents the incremental shares related to stock options and restricted stock units as calculated under the treasury stock method.
- (6) Assumes that 100% of the Focus LLC common units, including contingently issuable Focus LLC common units, if any, were exchanged for Class A common stock.
- (7) Assumes that 100% of the Focus LLC restricted common units were exchanged for Class A common stock.
- (8) 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.

**Results of Operations**

**Three Months Ended March 31, 2021 Compared to Three Months Ended March 31, 2022**

The following discussion presents an analysis of our results of operations for the three months ended March 31, 2021 and 2022. 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.

	Three Months Ended March 31,		\$ Change	% Change
	2021	2022		
	(dollars in thousands)			
<b>Revenues:</b>				
Wealth management fees	\$ 374,845	\$ 515,179	\$ 140,334	37.4 %
Other	19,330	21,388	2,058	10.6 %
Total revenues	<u>394,175</u>	<u>536,567</u>	<u>142,392</u>	<u>36.1 %</u>
<b>Operating expenses:</b>				
Compensation and related expenses	141,043	181,800	40,757	28.9 %
Management fees	102,072	137,839	35,767	35.0 %
Selling, general and administrative	63,826	88,650	24,824	38.9 %
Intangible amortization	42,983	60,276	17,293	40.2 %
Non-cash changes in fair value of estimated contingent consideration	25,936	(8,985)	(34,921)	*
Depreciation and other amortization	3,607	3,633	26	0.7 %
Total operating expenses	<u>379,467</u>	<u>463,213</u>	<u>83,746</u>	<u>22.1 %</u>
Income from operations	<u>14,708</u>	<u>73,354</u>	<u>58,646</u>	<u>*</u>
<b>Other income (expense):</b>				
Interest income	47	3	(44)	(93.6)%
Interest expense	(10,521)	(17,616)	(7,095)	(67.4)%
Amortization of debt financing costs	(852)	(1,101)	(249)	(29.2)%
Other income (expense)—net	3	(36)	(39)	*
Income from equity method investments	283	95	(188)	(66.4)%
Total other expense—net	<u>(11,040)</u>	<u>(18,655)</u>	<u>(7,615)</u>	<u>(69.0)%</u>
Income before income tax	3,668	54,699	51,031	*
Income tax expense	1,186	15,617	14,431	*
Net income	<u>\$ 2,482</u>	<u>\$ 39,082</u>	<u>\$ 36,600</u>	<u>*</u>

\* Not meaningful

*Revenues*

Wealth management fees increased \$140.3 million, or 37.4%, for the three months ended March 31, 2022 compared to the three months ended March 31, 2021. New partner firms added subsequent to the three months ended

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March 31, 2021 that are included in our results of operations for the three months ended March 31, 2022 include Prairie Capital Management, Rollins Financial, ARS Wealth Advisors, Badgley Phelps Wealth Managers, Ancora Holdings, Sonora Investment Management, Cardinal Point, Ullmann Wealth Partners, Mosaic Family Wealth, Alley Company, Cassaday & Company and Provident Financial Management. Additionally, our partner firms completed 24 acquisitions subsequent to the three months ended March 31, 2021. The new partner firms contributed approximately \$54.2 million in revenue during the three months ended March 31, 2022. The balance of the increase of \$86.1 million was due to the revenue growth at our existing partner firms associated with wealth management services, which includes partner firm-level acquisitions.

Other revenues increased \$2.1 million, or 10.6%, for the three months ended March 31, 2022 compared to the three months ended March 31, 2021. Other revenues from new partner firms was approximately \$0.7 million. The balance of the increase of \$1.4 million was due primarily to an increase in recordkeeping and administration fees.

### *Operating Expenses*

Compensation and related expenses increased \$40.8 million, or 28.9%, for the three months ended March 31, 2022 compared to the three months ended March 31, 2021. The increase related to new partner firms was approximately \$13.9 million. The balance of the increase of \$26.9 million was due primarily to an increase in salaries and related expense due to the growth of existing partner firms and partner firm-level acquisitions offset in part by a decrease in non-cash equity compensation expense of \$5.6 million.

Management fees increased \$35.8 million, or 35.0%, for the three months ended March 31, 2022 compared to the three months ended March 31, 2021. The increase related to new partner firms was approximately \$13.5 million. Management fees are variable and a function of earnings during the period. The balance of the increase of \$22.3 million was primarily due to partner firm-level acquisitions and the increase in earnings during the three months ended March 31, 2022 compared to the three months ended March 31, 2021.

Selling, general and administrative expenses increased \$24.8 million, or 38.9%, for the three months ended March 31, 2022 compared to the three months ended March 31, 2021. New partner firms added approximately \$8.1 million. The balance of the increase of \$16.7 million was due primarily to an increase in expenses related to travel and entertainment, information technology and professional fees related to the growth of our existing partner firms and partner firm-level acquisitions.

Intangible amortization increased \$17.3 million, or 40.2%, for the three months ended March 31, 2022 compared to the three months ended March 31, 2021. The increase related to new partner firms was approximately \$11.9 million. The balance of the increase of \$5.4 million was due primarily to partner firm-level acquisitions.

Non-cash changes in fair value of estimated contingent consideration decreased \$34.9 million for the three months ended March 31, 2022 compared to the three months ended March 31, 2021. During the three months ended March 31, 2022, the probability that certain contingent consideration payments would be achieved decreased due to Monte Carlo Simulation changes associated with market conditions and forecasts, resulting in a decrease in the fair value of the contingent consideration liability.

### *Other income (expense)*

Interest expense increased \$7.1 million, or 67.4%, for the three months ended March 31, 2022 compared to the three months ended March 31, 2021. The increase was due primarily to higher average outstanding borrowings during the three months ended March 31, 2022 compared to the three months ended March 31, 2021.

### *Income Tax Expense*

Income tax expense increased \$14.4 million for the three months ended March 31, 2022 compared to the three months ended March 31, 2021. For the three months ended March 31, 2022, we recorded tax expense based on an estimated annual effective tax rate of 28.6%. 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.

## **Liquidity and Capital Resources**

### ***Sources of Liquidity***

During the three months ended March 31, 2022, we met our cash and liquidity needs primarily through cash on hand and borrowings under our Credit Facility. Over the next twelve months, and in the longer term, we expect that our cash and liquidity needs will be met by cash generated by our operations and borrowings under our 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. For information regarding the Credit Facility, please read “— Credit Facilities.”

### ***Tax Receivable Agreements***

Our Tax Receivable Agreements with the TRA holders 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 initial public offering 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, 2022, we expect that future payments to the TRA holders will be \$216.0 million, in aggregate. Future payments under the Tax Receivable Agreements in respect of subsequent exchanges 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.

We expect that future unitholders may become party to one or more Tax Receivable Agreements entered into in connection with future acquisitions by Focus LLC or issuances of units of Focus LLC to employees, principals and directors.

[Table of Contents](#)**Cash Flows**

The following table presents information regarding our cash flows and cash and cash equivalents for the three months ended March 31, 2021 and 2022:

	Three Months Ended March 31,		\$ Change	% Change
	2021	2022 (dollars in thousands)		
Cash provided by (used in):				
Operating activities	\$ 34,128	\$ (4,642)	\$ (38,770)	*
Investing activities	(28,260)	(11,067)	17,193	60.8 %
Financing activities	97,993	21,740	(76,253)	(77.8)%
Cash and cash equivalents—end of period	169,715	317,034	147,319	86.8 %

\* Not meaningful

*Operating Activities*

Net cash provided by operating activities includes net income 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 decreased \$38.8 million for the three months ended March 31, 2022 compared to the three months ended March 31, 2021. The decrease was related to working capital changes, primarily in amounts due to affiliates, offset partially by the increase in Adjusted EBITDA during the three months ended March 31, 2022 compared to the three months ended March 31, 2021.

*Investing Activities*

Net cash used in investing activities decreased \$17.2 million, or 60.8%, for the three months ended March 31, 2022 compared to the three months ended March 31, 2021. The decrease was due primarily to a decrease in investment and other, net and cash paid for acquisitions and contingent consideration of \$12.3 million and \$5.3 million, respectively, during the three months ended March 31, 2022 compared to the three months ended March 31, 2021.

*Financing Activities*

Net cash provided by financing activities for the three months ended March 31, 2022 decreased \$76.3 million, or 77.8%, compared to the three months ended March 31, 2021. The decrease was primarily due to a decrease in net borrowings under our Credit Facility during the three months ended March 31, 2022 compared to the three months ended March 31, 2021.

**Adjusted Free Cash Flow**

To supplement our statements of cash flows presented on a GAAP basis, we use a non-GAAP liquidity measure on a trailing 4-quarter basis to analyze cash flows generated from our operations. We consider Adjusted Free Cash Flow to be a liquidity measure that provides useful information to investors about the amount of cash generated by the business and is one factor in evaluating the amount of cash available to pay contingent consideration, make strategic acquisitions and repay outstanding borrowings. Adjusted Free Cash Flow does not represent our residual cash flow available for discretionary expenditures as it does not deduct our mandatory debt service requirements and other non-discretionary expenditures. We define Adjusted Free Cash Flow as net cash provided by operating activities, less

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purchase of fixed assets, distributions for Focus LLC unitholders and payments under Tax Receivable Agreements (if any). Adjusted Free Cash Flow is not defined under GAAP and should not be considered as an alternative to net cash from operating, investing or financing activities. Adjusted free cash flow may not be calculated the same for us as for other companies. The table below reconciles net cash provided by operating activities, as reflected on our cash flow statement, to our adjusted free cash flow.

	Trailing 4-Quarters Ended March 31,	
	2021	2022
	(in thousands)	
Net cash provided by operating activities (1)	\$ 242,107	\$ 275,148
Purchase of fixed assets	(18,996)	(11,415)
Distributions for unitholders	(26,945)	(31,465)
Payments under tax receivable agreements	(4,112)	(4,167)
<b>Adjusted Free Cash Flow</b>	<b>\$ 192,054</b>	<b>\$ 228,101</b>

- (1) A portion of contingent consideration paid is classified as operating cash outflows in accordance with GAAP, with the balance reflected in investing and financing cash flows. Contingent consideration paid classified as operating cash outflows for each quarter in the trailing 4-quarters ended March 31, 2021 was \$16.4 million, \$3.8 million, \$2.4 million and \$5.2 million, respectively, totaling \$27.8 million for the trailing 4-quarters ended March 31, 2021. Contingent consideration paid classified as operating cash outflows for each quarter in the trailing 4-quarters ended March 31, 2022 was \$11.6 million, \$20.4 million, \$16.4 million and \$23.1 million, respectively, totaling \$71.5 million for the trailing 4-quarters ended March 31, 2022. See Note 6 to our unaudited condensed consolidated financial statements for additional information.

### Credit Facilities

As of March 31, 2022, our credit facility (the “Credit Facility”) consisted of a \$2.4 billion first lien term loan (the “First Lien Term Loan”), consisting of a tranche A (“Tranche A”) and tranche B (“Tranche B”), and a \$650.0 million first lien revolving credit facility (the “First Lien Revolver”).

Tranche A bears interest (at our option) at: (i) the London Interbank Offering Rate (“LIBOR”) plus a margin of 2.00% or (ii) the lender’s Base Rate (as defined in the Credit Facility) plus a margin of 1.00%. Tranche A requires quarterly installment repayments of \$4.2 million and has a maturity date of July 2024.

Tranche B bears interest (at our option) at: (i) LIBOR plus a margin of 2.50% with a 0.50% LIBOR floor or (ii) the lender’s Base Rate plus a margin of 1.50%. Tranche B requires quarterly installment repayments of \$2.0 million and has a maturity date of June 2028.

In April 2022, we amended the First Lien Revolver to extend the maturity date to June 2024 and change the benchmark interest rate from LIBOR to the Secured Overnight Financing Rate (“SOFR”). As amended, the First Lien Revolver bears interest (at our option) at SOFR, including a credit adjustment spread, 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. Up to \$30.0 million of the First Lien Revolver is available for the issuance of letters of credit, subject to certain limitations.

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 Facility) of not more than 6.25:1.00 as of the last day of each fiscal quarter. At March 31, 2022, our First Lien Leverage Ratio was 3.84:1.00,



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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). Consolidated EBITDA for purposes of the Credit Facility was \$556.2 million at March 31, 2022. Focus LLC is also subject on an annual basis to contingent principal payments based on an excess cash flow calculation (as defined in the Credit Facility) for any fiscal year if the First Lien Leverage Ratio exceeds 3.75:1.00. No contingent principal payments were required to be made in 2021. Based on the excess cash flow calculation for the year ended December 31, 2021, no contingent principal payments are required to be made in 2022.

We defer and amortize our debt financing costs over the respective terms and tranches 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.

At March 31, 2022, outstanding stated value borrowings under the First Lien Term Loan and First Lien Revolver were approximately \$2.5 billion. The weighted-average interest rate for outstanding borrowings was approximately 3% for the three months ended March 31, 2022. As of March 31, 2022, the First Lien Revolver available unused commitment line was \$590.2 million. At March 31, 2022, we had outstanding letters of credit in the amount of \$9.8 million bearing interest at an annual rate of approximately 2%.

In March 2020, we entered into a 4 year floating to fixed interest rate swap with a notional amount of \$400.0 million. The interest rate swap effectively fixes the variable interest rate applicable to \$400.0 million of borrowings outstanding on the First Lien Term Loan. The terms of the interest rate swap provide that we pay interest to the counterparty each month at a rate of 0.713% and receive interest from the counterparty each month at the 1 month USD LIBOR rate, subject to a 0% floor.

In April 2020, we entered into two 4 year floating to fixed interest rate swap agreements with notional amounts of \$250.0 million and \$200.0 million. These swaps effectively fix the variable interest rate applicable to associated amount of borrowings outstanding on the First Lien Term Loan. The terms of these swaps provide that we pay interest to the counterparty each month at a rate of 0.537% and 0.5315%, respectively, and receive interest from the counterparty each month at the 1 month USD LIBOR rate, subject to a 0% floor.

The interest rate swaps effectively fix the variable interest rate applicable to \$850.0 million or approximately 35% of the First Lien Term Loan borrowings outstanding, resulting in a weighted average interest rate on these borrowings of approximately 0.62% plus a margin of 2%.

Our First Lien Term Loan uses LIBOR as a benchmark for establishing the interest rate. 1-, 3-, 6- and 12-month LIBOR are expected to be replaced by SOFR in 2023. We expect SOFR to be a reasonable replacement for LIBOR and do not expect any material impact on the interest rates we pay.

### **Critical Accounting Policies**

As of March 31, 2022, 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, 2021.

### **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, 2022, over 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. 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. We entered into interest rate swap agreements in March and April 2020 to manage interest rate exposure in connection with our variable interest rate borrowings. As of March 31, 2022, we had total stated value borrowings outstanding under our First Lien Term Loan and First Lien Revolver of approximately \$2.5 billion. At March 31, 2022, interest payments associated with \$850.0 million of these borrowings was effectively converted to a fixed rate through the use of interest rate swaps and interest on the remaining borrowings remained subject to variable rates based on LIBOR. If LIBOR was 1.0% higher throughout the three months ended March 31, 2022, our interest expense would have increased by approximately \$3.2 million.

Our First Lien Term Loan uses LIBOR as a benchmark for establishing the interest rate. 1-, 3-, 6- and 12-month LIBOR are expected to be replaced by SOFR in 2023. We expect SOFR to be a reasonable replacement for LIBOR and do not expect any material impact on the interest rates we pay.

### **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 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, 2022. 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, 2022, 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.

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2022 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **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. A partner firm has settled most of the investor demands related to a private fund (that held approximately \$27 million in client assets) during the year ended December 31, 2021. We have notified our

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insurance carriers of the matter. After consultation with legal counsel, we do not believe that the resolutions of any 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, we and our partner firms receive requests for information from governmental authorities. For example, in 2021, we received an inquiry from the SEC asking us to provide materials principally related to policies, procedures and communications concerning Adjusted Net Income, a non-GAAP financial measure, which was disaggregated in the third quarter of 2020 to separate certain tax adjustments in response to earlier comments from the SEC. We are cooperating with this inquiry and intend to continue to cooperate with all governmental authorities. While we are unable to determine the ultimate outcome of any matter, we believe that the resolution of all current governmental inquiries will not have a material impact on our financial condition, results of operations or cash flows.

### **Item 1A. Risk Factors**

In addition to the other information set forth in this report, readers should carefully consider the risks under the heading “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2021. Except as set forth below, there has been no material change in our risk factors from those described in our Annual Report on Form 10-K for the year ended December 31, 2021. These risks, as updated below, are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may materially adversely affect our business, financial condition or results of operations.

***The ongoing conflict in Ukraine has, and will likely continue to, negatively impact the global economy and may have a material adverse effect on our business, operations and financial results.***

The military conflict in Ukraine and the ongoing geopolitical tensions have created significant volatility, uncertainty and economic disruption. The United States, European Union and other countries have announced economic sanctions against Russia. While it has not had a material adverse effect on our business, operations and financial results, the extent to which the conflict impacts our business, operations and financial results going forward will depend on numerous evolving factors that we may not be able to accurately predict, including: the duration and scope of the conflict; governmental and business actions that have been and continue to be taken in response to the conflict, the impact of the conflict on economic activity and any retaliatory actions taken by Russia.

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

In March 2022, we issued an aggregate of 26,956 shares of Class A common stock and retired 25,000 shares of Class B common stock and 4,250 incentive units in Focus LLC, and we acquired 26,956 common units in Focus LLC, in each case as part of the regular quarterly exchanges offered to holders of units in Focus LLC.

In February 2022, Focus LLC issued 187,795 common units and we issued a corresponding number of shares of Class B common stock in connection with a contingent consideration payment.

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.

Each Focus LLC common unit, together with a corresponding share of our 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.

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**Item 6. Exhibits**

<b>Exhibit Number</b>	<b>Description</b>
3.1	<a href="#">Amended and Restated Certificate of Incorporation of Focus Financial Partners Inc.(1)</a>
3.2	<a href="#">Amended and Restated Bylaws of Focus Financial Partners Inc.(1)</a>
31.1*	<a href="#">Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.2*	<a href="#">Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
32.1*	<a href="#">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</a>
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
104*	Cover Page Interactive Data File - the cover page iXBRL tags are embedded within the inline XBRL 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.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

**FOCUS FINANCIAL PARTNERS INC.**

Date: May 5, 2022

By:                                         /s/ RUEDIGER ADOLF                                          
Ruediger Adolf  
*Chairman and Chief Executive Officer (Principal Executive Officer)*

Date: May 5, 2022

By:                                         /s/ JAMES SHANAHAN                                          
James Shanahan  
*Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)*

**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)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer 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 5, 2022

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**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)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer 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 5, 2022

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**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  
Ruediger Adolf  
*Chairman and Chief Executive Officer*

/s/ JAMES SHANAHAN  
James Shanahan  
*Chief Financial Officer*

Date: May 5, 2022

Date: May 5, 2022

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