

Silvercrest Asset Management Group Inc.
Form 10-Q
November 12, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934
FOR THE QUARTERLY PERIOD ENDED September 30, 2014

OR

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

Commission file number: 001-35733

Silvercrest Asset Management Group Inc.

(Exact name of registrant as specified in its charter)

Delaware 45-5146560
(State or other jurisdiction (I.R.S. Employer

of incorporation) Identification No.)

1330 Avenue of the Americas, 38th Floor

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New York, New York 10019

(Address of principal executive offices and zip code)

(212) 649-0600

(Registrant's telephone number, including area code)

Not Applicable

(Formed name, former address and former fiscal year, if changed since last report)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

The number of outstanding shares of the registrant's Class A common stock, par value \$0.01 per share, and Class B common stock, par value \$0.01 per share, as of November 11, 2014 were 7,658,010 and 4,570,413, respectively.

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Except where the context requires otherwise and as otherwise set forth herein, in this report, references to the “Company”, “we”, “us” or “our” refer to Silvercrest Asset Management Group Inc. (“Silvercrest”) and its consolidated subsidiaries, including Silvercrest L.P. (“Silvercrest L.P.” or “SLP”). SLP’s existing limited partners are referred to in this report as “principals”. On June 26, 2013, Silvercrest completed its corporate reorganization, and on July 2, 2013, Silvercrest closed its initial public offering. Prior to that date, Silvercrest was a private company. The reorganization and initial public offering are described in the notes to our Condensed Consolidated Financial Statements included in Part I of this Form 10-Q.

Forward-Looking Statements

This report contains, and from time to time our management may make, forward-looking statements within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. In some cases, you can identify these statements by forward-looking words such as “may”, “might”, “will”, “should”, “expects”, “intends”, “p”, “anticipates”, “believes”, “estimates”, “predicts”, “potential” or “continue”, the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to risks, uncertainties and assumptions, may include projections of our future financial performance, future expenses, anticipated growth strategies, descriptions of new business initiatives and anticipated trends in our business or financial results. These statements are only predictions based on our current expectations and projections about future events. Among the important factors that could cause actual results, level of activity, performance or achievements to differ materially from those indicated by such forward-looking statements are: fluctuations in quarterly and annual results, adverse economic or market conditions, incurrence of net losses, adverse effects of management focusing on implementation of a growth strategy, failure to develop and maintain the Silvercrest brand and other factors disclosed under “Risk Factors” in our annual report on Form 10-K for the year ended December 31, 2013 which is accessible on the SEC’s website at www.sec.gov. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by law.

Factors that may cause our actual results to differ materially from our forward-looking statements include, but are not limited to:

- our anticipated future results of operations;
- our potential operating performance and efficiency and any related reputational harm or negative perceptions in the market;
- our expectations with respect to future levels of assets under management, inflows and outflows;
- our financing plans, issuance of debt or senior equity securities, cash needs and liquidity position;
- our intention to pay dividends and our expectations about the amount of those dividends;
- our expected levels of compensation of our employees and our expected ability to hire and retain qualified investment professionals;
- our expectations with respect to future expenses and the level of future expenses;
- our expected tax rate, and our expectations with respect to deferred tax assets;
- our estimates of future amounts payable pursuant to our tax receivable agreements and the contingent value rights we have issued;
- our ability to retain clients from whom we derive a substantial portion of our assets under management;
- our ability to maintain our fee structure;
- our particular choices with regard to investment strategies employed;
- our ability to handle market volatility and risk in any and all markets to which we have exposure;
- the cost of complying with current and future regulation, coupled with the cost of defending ourselves from related investigations or litigation;
-

failure of our operational safeguards against breaches in data security, privacy, conflicts of interest or employee misconduct;

- our ability to compete in an intensely competitive industry; and
- our reliance on prime brokers, custodians, administrators and other agents.

Part I – Financial Information

Item 1. Financial Statements

Silvercrest Asset Management Group Inc.

Condensed Consolidated Statements of Financial Condition

(Unaudited)

(In thousands, except share and par value data)

	September 30, 2014	December 31, 2013
Assets		
Cash and cash equivalents	\$ 27,943	\$ 27,122
Restricted certificates of deposit and escrow	586	1,021
Investments	100	103
Receivables, net	5,081	5,405
Due from Silvercrest Funds	2,926	2,653
Furniture, equipment and leasehold improvements, net	2,161	1,913
Goodwill	20,008	20,031
Intangible assets, net	11,510	12,589
Deferred tax asset—tax receivable agreement	23,815	25,022
Prepaid expenses and other assets	2,377	4,868
Total assets	\$ 96,507	\$ 100,727
Liabilities and Stockholders' Equity		
Accounts payable and accrued expenses	\$ 2,096	\$ 6,587
Accrued compensation	15,572	17,424
Notes payable	8,127	8,303
Borrowings under revolving credit facility	3,000	3,000
Deferred rent	1,422	1,742
Deferred tax and other liabilities	16,436	15,506
Total liabilities	46,653	52,562
Commitments and Contingencies (Note 10)		
Stockholders' Equity		
Preferred Stock, par value \$0.01, 10,000,000 shares authorized; none issued and outstanding, as of September 30, 2014 and December 31, 2013	—	—
Class A common stock, par value \$0.01, 50,000,000 shares authorized; 7,658,010 and 7,522,974 issued and outstanding, as of September 30, 2014 and December 31, 2013, respectively	77	75

Class B common stock, par value \$0.01, 25,000,000 shares authorized; 4,570,413 and 4,464,617 issued and outstanding, as of September 30, 2014 and December 31, 2013, respectively	46	45
Additional Paid-In Capital	39,137	39,003
Retained earnings	3,028	2,099
Total stockholders' equity	42,288	41,222
Non-controlling interests	7,566	6,943
Total equity	49,854	48,165
Total liabilities and stockholders' equity	\$ 96,507	\$ 100,727

See accompanying notes to condensed consolidated financial statements.

Silvercrest Asset Management Group Inc.

Condensed Consolidated Statements of Operations

(Unaudited)

(In thousands, except per share data)

	Three months ended		Nine months ended	
	September 30, 2014	2013	September 30, 2014	2013
Revenue				
Management and advisory fees	\$16,816	\$13,516	\$48,487	\$39,245
Performance fees and allocations	—	14	—	17
Family office services	1,001	1,207	3,276	3,632
Total revenue	17,817	14,737	51,763	42,894
Expenses				
Compensation and benefits	9,959	8,388	29,431	19,513
General and administrative	3,382	3,162	9,818	8,596
Total expenses	13,341	11,550	39,249	28,109
Income before other (expense) income, net	4,476	3,187	12,514	14,785
Other (expense) income, net				
Other income, net	8	29	16	86
Interest income	17	36	53	85
Interest expense	(113)	(180)	(368)	(288)
Total other (expense) income, net	(88)	(115)	(299)	(117)
Income before provision for income taxes	4,388	3,072	12,215	14,668
Provision for income taxes	(1,465)	(823)	(4,253)	(1,489)
Net income	2,923	2,249	7,962	13,179
Less: net income attributable to non-controlling interests	(1,565)	(1,515)	(4,309)	(1,515)
Net income attributable to Silvercrest	\$1,358	\$734	\$3,653	\$11,664
Net income per share/unit:				
Basic	\$0.18	\$0.14	\$0.48	\$1.34
Diluted	\$0.18	\$0.14	\$0.48	\$1.31
Weighted average shares/units outstanding:				
Basic	7,583,911	5,363,493	7,544,443	8,716,686
Diluted	7,583,911	5,363,493	7,544,443	8,873,877

See accompanying notes to condensed consolidated financial statements.

Silvercrest Asset Management Group Inc.

Condensed Consolidated Statements of Changes in Stockholders' Equity/Partners' Deficit

(Unaudited)

(In thousands)

	Class A Common Stock Shares	Class A Common Stock Amount	Class B Common Stock Shares	Class B Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Total Stockholders' Equity	Non- controlling Interest	Total Equity	Partners' Capital	Excess of Liabilities, Redeemable Partners' Capital and Partners' Capital over Assets
January 1, 2013	—	\$—	—	\$—	\$—	\$—	\$—	\$—	\$—	\$47,904	\$(108,374)
Contribution from partners	—	—	17	—	—	—	—	165	165	—	455
Distributions to partners	—	—	—	—	—	—	—	(1,427)	(1,427)	(4,036)	(23,864)
Accrued partner incentive distributions	—	—	—	—	—	—	—	—	—	—	(6,000)
Redemptions of partners' interests	—	—	(14)	—	—	—	—	(190)	(190)	—	(5,561)
Equity-based compensation	—	—	—	—	—	—	—	227	227	—	1,024
Reclassification of equity-based awards due to elimination of redemption feature	—	—	—	—	—	—	—	—	—	—	824
Net Income	—	—	—	—	—	734	734	1,515	2,249	2,827	8,102
Accrued interest on notes receivable from partners	—	—	—	—	—	—	—	(18)	(18)	—	—
Issuance of Class A shares in IPO	5,509	55	—	—	55,214	—	55,269	—	55,269	—	—

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Reorganization of equity structure	—	—	10,000	100	—	—	100	12,683	12,783	(46,695)	133,394
Purchase of Class B units of SLP	—	—	(3,541)	(35)	(30,881)	—	(30,916)	(4,484)	(35,400)	—	—
Initial establishments of deferred tax assets, net amounts payable under tax receivable agreement	—	—	—	—	9,072	—	9,072	—	9,072	—	—
September 30, 2013	5,509	\$55	6,462	\$65	\$33,405	\$734	\$34,259	\$8,471	\$42,730	\$—	\$—
January 1, 2014	7,523	\$75	4,465	\$45	\$39,003	\$2,099	\$41,222	\$6,943	\$48,165	\$—	\$—
Distributions to partners	—	—	—	—	—	—	—	(5,244)	(5,244)	—	—
Redemption of partner's interest	—	—	(23)	—	—	—	—	(376)	(376)	—	—
Repayment of notes receivable from members	—	—	—	—	—	—	—	833	833	—	—
Equity-based compensation	—	—	264	3	—	—	3	1,444	1,446	—	—
Net Income	—	—	—	—	—	3,653	3,653	4,309	7,962	—	—
Accrued interest on notes receivable from partners	—	—	—	—	—	—	—	(47)	(47)	—	—
Share conversion	136	2	(136)	(2)	319	—	319	(296)	23	—	—
Deferred tax assets, net of amounts payable under tax receivable agreement	—	—	—	—	(185)	—	(185)	—	(185)	—	—
Dividends paid on Class A common stock - \$0.36 per share	—	—	—	—	—	(2,724)	(2,724)	—	(2,724)	—	—
September 30, 2014	7,658	\$77	4,570	\$46	\$39,137	\$3,028	\$42,288	\$7,566	\$49,854	\$—	\$—

See accompanying notes to condensed consolidated financial statements.

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Silvercrest Asset Management Group Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Nine months ended September 30,	
	2014	2013
Cash Flows From Operating Activities		
Net income	\$ 7,962	\$ 13,179
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity-based compensation	848	1,207
Depreciation and amortization	1,489	1,455
Deferred rent	(320)	(335)
Provision for doubtful accounts	227	—
Deferred income taxes	1,830	44
Non-cash interest on notes receivable from partners	(47)	(62)
Distributions received from investment funds	3	1,900
Other	4	(4)
Cash flows due to changes in operating assets and liabilities:		
Receivables and due from Silvercrest Funds	(175)	(227)
Prepaid expenses and other assets	1,682	(561)
Accounts payable and accrued expenses	(2,280)	80
Accrued compensation	(1,250)	3,003
Other liabilities	647	33
Interest payable on notes payable	249	235
Net cash provided by operating activities	10,869	19,947
Cash Flows From Investing Activities		
Restricted certificates of deposit and escrow	\$ 435	\$ (57)
Acquisition of furniture, equipment and leasehold improvements	(337)	(73)
Earn-outs paid related to acquisitions completed before January 1, 2009	(1,679)	(703)
Acquisition of Ten-Sixty Asset Management, LLC	—	(2,500)
Net cash used in investing activities	(1,581)	(3,333)
Cash Flows From Financing Activities		
Earn-outs paid related to acquisitions completed on or after January 1, 2009	\$ (511)	\$ (462)
Borrowings under revolving credit facility	—	7,000
Payments under revolving credit facility	—	(2,000)
Contributions from partners	—	165
Redemptions of partners' interests	(270)	(451)
Repayments of notes payable	(421)	(704)
Payments on capital leases	(38)	(14)
Distributions to partners	(5,244)	(29,327)
Offering costs	—	(1,420)
Dividends paid on Class A common stock	(2,724)	—

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Payments from partners on notes receivable	741	887
Purchase of Class B units from partners of Silvercrest LP	—	(35,365)
Sale and issuance of Silvercrest Asset Management Group Inc. Class A common stock	—	56,689
Net cash used in financing activities	(8,467)	(5,002)
Net increase in cash and cash equivalents	821	11,612
Cash and cash equivalents, beginning of period	27,122	13,443
Cash and cash equivalents, end of period	\$ 27,943	\$ 25,055

See accompanying notes to condensed consolidated financial statements.

Silvercrest Asset Management Group Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

(continued)

	Nine months ended September 30,	
	2014	2013
Supplemental Disclosures of Cash Flow Information		
Net cash paid during the period for:		
Income taxes	\$ 4,308	\$ 1,067
Interest	133	73
Supplemental Disclosures of Non-cash Financing and Investing Activities		
Notes receivable from new partners issued as capital contributions to Silvercrest L.P.	\$ —	\$ 455
Accrual of partner incentive distributions	—	6,000
Issuance of notes for redemption of partnership interest	—	5,300
Common stock surrendered	92	—
Issuance of notes payable for acquisition of Ten-Sixty Asset Management, LLC	—	1,592
Recognition of deferred tax assets as a result of IPO	11	12,806
Recognition of tax receivable agreement liability	—	3,734
Asset acquired under capital lease	321	—

See accompanying notes to condensed consolidated financial statements.

Silvercrest Asset Management Group Inc.

Notes to Condensed Consolidated Financial Statements

As of and for the Three and Nine Months ended September 30, 2014 and 2013

(Dollars in thousands)

1. ORGANIZATION AND BUSINESS

Silvercrest Asset Management Group Inc. (“Silvercrest”), together with its consolidated subsidiaries (collectively the “Company”), was formed as a Delaware corporation on July 11, 2011. Silvercrest was formed for the purpose of completing a public offering and related transactions in order to carry on the business of Silvercrest L.P. and its subsidiaries.

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

SLP was formed on December 10, 2008 and commenced operations on January 1, 2009.

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

Reorganization and Initial Public Offering

Pursuant to a reorganization agreement effective on June 26, 2013, Silvercrest became the sole general partner in Silvercrest L.P. and its only material asset is the general partner interest in Silvercrest L.P., represented by 7,658,010 Class A units or approximately 63% of the economic interests of Silvercrest L.P. Effective June 26, 2013, Silvercrest controlled all of the businesses and affairs of Silvercrest L.P. and, through Silvercrest L.P. and its subsidiaries, continues to conduct the business previously conducted by these entities prior to the reorganization.

On July 2, 2013, Silvercrest completed the initial public offering of 4,790,684 of its Class A common shares at \$11.00 per share (the “IPO”). Silvercrest’s stock began trading on June 27, 2013 on NASDAQ under the symbol “SAMG”. The net proceeds from the IPO were \$47,920, after payment of underwriting discounts and commissions of \$3,324 and offering expenses paid by Silvercrest of \$1,454.

On July 12, 2013, Silvercrest sold an additional 718,603 shares of its Class A common stock, at a public offering cost of \$11.00 per share, pursuant to the exercise in full of the over-allotment option that the Company granted to the underwriters in connection with its initial public offering. The exercise of the over-allotment option resulted in gross proceeds of \$7,905 and net proceeds, after expenses, of \$7,379, after payment of underwriting discounts of \$498 and offering expenses of \$28. Following consummation of this issuance of 718,603 shares of Class A Common Stock, Silvercrest had outstanding 5,509,297 shares of Class A common stock.

The portion of operating results included in the Condensed Consolidated Statement of Operations for the nine months ended September 30, 2013 that relates to the six months ended June 30, 2013 and the portion of the Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2013 that relates to the six months ended June 30, 2013 are those of SLP, the Company's accounting predecessor.

In connection with the IPO and the reorganization of SLP, Silvercrest and SLP entered into a series of transactions in order to reorganize their capital structures and complete the IPO. The reorganization and IPO transactions included, among others, the following:

Silvercrest GP LLC ("GP LLC") (SLP's general partner prior to the reorganization) distributed all of its interests in SLP to its members on a pro rata basis in accordance with each member's interest in GP LLC;

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SLP completed a unit distribution of 19.64 Class B partnership units for each outstanding and vested limited partnership unit prior to the consummation of the IPO which resulted in 10,000,000 outstanding Class B units; GP LLC transferred its rights as general partner of SLP to Silvercrest, which became the sole general partner of SLP, and GP LLC was dissolved thereafter;

The partnership agreement of SLP was amended, effective as of the consummation of the IPO, to eliminate the call and put rights of SLP and its partners, respectively upon a partner's death, or, if applicable, termination of employment, which required all limited partner's units to be classified as temporary equity in SLP's Consolidated Financial Statements;

For each Class B unit of SLP, Silvercrest issued one share of Class B common stock to the holders of Class B units of SLP, in exchange for its par value which was funded by SLP;

Silvercrest entered into a tax receivable agreement with each limited partner of SLP to return 85% of the tax benefits, estimated to be \$15,897 as of September 30, 2014, that it receives as a result of its ability to step up its tax basis in the partnership units of SLP that it acquired from partners of SLP;

A special distribution by SLP of \$10,000 was made to its existing partners prior to the consummation of the IPO, of which \$7,000 was funded by borrowings under a credit facility with City National Bank; this special distribution, which was paid in July 2013, was treated as an equity transaction;

A special bonus payment by SLP was made to non-principals of \$754 which was paid in July 2013, and was recorded as compensation expense during the quarter ended June 30, 2013;

Partner incentive distributions earned for the six months ended June 30, 2013 were treated as equity transactions and were accrued in accrued compensation as of June 30, 2013; and

The purchase of 3,540,684 Class B units from partners of SLP at an offering price of \$11.00 per unit, as adjusted for underwriting discounts and commissions of \$2,457 and offering expenses of \$1,126, resulted in net proceeds of \$35,365 to the selling partners. The Class B units acquired by Silvercrest were converted into Class A units of SLP.

Modification of Units of SLP

As part of the reorganization, the limited partner units of SLP were modified.

The Class B units (previously limited partnership units) of SLP, which are held by principals, were modified to eliminate a cash redemption feature. Prior to the reorganization, the terms of the limited partnership units included call and put rights to redeem the units from a holder whose employment by SLP had been terminated. As a result of the redemption feature, SLP was required to account for the limited partnership units held by employee-partners as temporary equity. At the time of the reorganization and as a result of the elimination of the redemption feature, SLP reclassified the redeemable equity of its limited partners to permanent equity. Any deferred equity units that were unvested at the time of the reorganization will continue to be reflected as share-based payment awards and will be expensed as compensation over the remaining vesting period (see Note 16, "Equity-Based Compensation").

Tax Receivable Agreement

In connection with the IPO and reorganization of SLP, Silvercrest entered into a tax receivable agreement (the "TRA") with the partners of SLP that will require it to pay them 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that it actually realizes (or is deemed to realize in the case of an early termination payment by it, or a change in control) as a result of the increases in tax basis and certain other tax benefits related to entering into the TRA, including tax benefits attributable to payments under the TRA. This will be Silvercrest's obligation and not the obligation of SLP. Silvercrest expects to benefit from the remaining 15% of cash savings, if any, realized.

The TRA was effective upon the consummation of the IPO and will continue until all such tax benefits have been utilized or expired, unless Silvercrest exercises its right to terminate the TRA for an amount based on an agreed upon value of the payments remaining to be made under the agreement. The TRA will automatically terminate with respect to Silvercrest's obligations to a partner if a partner (i) is terminated for cause, (ii) breaches his or her non-solicitation

covenants with Silvercrest or any of its subsidiaries or (iii) voluntarily resigns or retires and competes with Silvercrest or any of its subsidiaries in the 12-month period following resignation of employment or retirement, and no further payments will be made to such partner under the TRA.

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

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

the timing of exchanges of Class B units for shares of Silvercrest's Class A common stock—for instance, the increase in any tax deductions will vary depending on the fair market value, which may fluctuate over time, of the depreciable and amortizable assets of SLP at the time of the exchanges;

the price of Silvercrest's Class A common stock at the time of exchanges of Class B units—the increase in Silvercrest's share of the basis in the assets of SLP, as well as the increase in any tax deductions, will be related to the price of Silvercrest's Class A common stock at the time of these exchanges;

the extent to which these exchanges are taxable—if an exchange is not taxable for any reason (for instance, if a principal who holds Class B units exchanges units in order to make a charitable contribution), increased deductions will not be available;

the tax rates in effect at the time Silvercrest utilizes the increased amortization and depreciation deductions; and

the amount and timing of Silvercrest's income—Silvercrest will be required to pay 85% of the tax savings, as and when realized, if any. If Silvercrest does not have taxable income, it generally will not be required to make payments under the TRA for that taxable year because no tax savings will have been actually realized.

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

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

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

IPO and Use of Proceeds

The net proceeds from the IPO were \$47,920. Silvercrest used a portion of the IPO net proceeds to purchase 3,540,684 Class B units of SLP from certain of its partners for \$35,365.

The net proceeds from the underwriters' exercise in full of the over-allotment option that the Company granted to the underwriters in connection with its initial public offering were \$7,379.

Silvercrest intends to use the remaining proceeds from the IPO and underwriters' over-allotment option for general corporate purposes.

Earnings per Share and Unit

In connection with the reorganization of SLP and the IPO, SLP completed a unit distribution of 19.64 units for each unit outstanding as of the date of the consummation of the IPO.

Diluted weighted average units outstanding for the three and nine months ended September 30, 2013 includes 237,089 performance units which are conditionally issuable units that would be issuable if September 30, 2013 was the end of the contingency period. The portion of Basic and Diluted Earnings per share for the nine months ended September 30, 2013 that relates to the six months ended June 30, 2013 are presented on a historic basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The accompanying Condensed Consolidated Financial Statements include the accounts of Silvercrest and its wholly-owned subsidiaries, SLP, SAMG LLC, SFS, MCG, Silvercrest Investors LLC, Silvercrest Investors II LLC and Silvercrest Investors III LLC as of and for the three and nine months ended September 30, 2014. The portion of the Condensed Consolidated Financial Statements for the nine months ended September 30, 2013 that relate to the six months ended June 30, 2013 are of the Company's accounting predecessor, SLP, and its consolidated subsidiaries. All intercompany transactions and balances have been eliminated.

The Condensed Consolidated Statement of Financial Condition at December 31, 2013 was derived from the audited Consolidated Statement of Financial Condition at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. The results of operations for the three and nine-month periods ended September 30, 2014 are not necessarily indicative of the operating results that may be expected for the full fiscal year ending December 31, 2014 or any future period.

The Condensed Consolidated Financial Statements of the Company included herein are unaudited and have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the interim results have been made. The Company's Condensed Consolidated Financial Statements and the related notes should be read together with the Consolidated Financial Statements and the related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

The Company evaluates for consolidation those entities it controls through a majority voting interest or otherwise, including those SLP funds over which the general partner or equivalent is presumed to have control. The initial step in the Company's determination of whether a fund for which SLP is the general partner is required to be consolidated is assessing whether the fund meets the definition of a variable interest entity (VIE). None of the funds for which SLP is the general partner met the definition of a VIE during the three and nine months ended September 30, 2014 and 2013, as the total equity at risk of each fund is sufficient for the fund to finance its activities without additional subordinated financial support provided by any parties, including the equity holders.

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

As of September 30, 2014 and December 31, 2013 and for the three and nine months ended September 30, 2014 and 2013, all of the funds for which SLP was the general partner had substantive "kick-out" rights and therefore neither SLP nor Silvercrest consolidated any of the Silvercrest Funds.

Non-controlling Interest

As of September 30, 2014, Silvercrest holds approximately 63% of the economic interests in SLP. Silvercrest is the sole general partner of SLP and, therefore, controls the management of SLP. As a result, Silvercrest consolidates the financial position and the results of operations of SLP and its subsidiaries, and records a non-controlling interest, as a separate component of stockholders' equity on its Condensed Consolidated Statement of Financial Condition for the remaining economic interests in SLP. The non-controlling interest in the income or loss of SLP is included in the Condensed Consolidated Statement of Operations as a reduction or addition to net income derived from SLP.

Segment Reporting

The Company views its operations as comprising one operating segment. Each of the Company's acquired businesses have similar economic characteristics and have been fully integrated upon acquisition. Furthermore, our chief operating decision maker, which is the Company's Chief Executive Officer, monitors and reviews financial information at a consolidated level for assessing operating results and the allocation of resources.

Use of Estimates

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

Cash and Cash Equivalents

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

Restricted Certificates of Deposit

Certain certificates of deposit held at a major financial institution are restricted and serve as collateral for letters of credit for the Company's lease obligations as described in Note 10.

Equity Method Investments

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

The Company evaluates its equity method investments for impairment, whenever events or changes in circumstances indicate that the carrying amounts of such investments may not be recoverable. The difference between the carrying value of the equity method investment and its estimated fair value is recognized as an impairment when the loss in value is deemed other than temporary. The Company's equity method investments approximate their fair value at September 30, 2014 and December 31, 2013. The fair value of the equity method investments is estimated based on the Company's share of the fair value of the net assets of the equity method investee which consist of Level I and Level II securities. No impairment charges related to equity method investments were recorded during the three and nine months ended September 30, 2014 or 2013.

Receivables and Due from Silvercrest Funds

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

Furniture, Equipment and Leasehold Improvements

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

Business Combinations

The Company accounts for business combinations using the acquisition method of accounting. The acquisition method of accounting requires that purchase price, including the fair value of contingent consideration, of the acquisition be allocated to the assets acquired and liabilities assumed using the fair values determined by management as of the acquisition date. Contingent consideration is recorded as part of the purchase price when such contingent consideration is not based on continuing employment of the selling shareholders. Contingent consideration that is related to continuing employment is recorded as compensation expense. Payments made for contingent consideration recorded as part of an acquisition's purchase price are reflected as financing activities in the Company's Condensed Consolidated Statements of Cash Flows.

For acquisitions completed subsequent to January 1, 2009, the Company remeasures the fair value of contingent consideration at each reporting period using a probability-adjusted discounted cash flow method based on significant inputs not observable in the market and any change in the fair value from either the passage of time or events occurring after the acquisition date, is recorded in earnings. Contingent consideration payments that exceed the acquisition date fair value of the contingent consideration are reflected as an operating activity in the Condensed Consolidated Statements of Cash Flows.

Goodwill and Intangible Assets

Goodwill consists of the excess of the purchase price over the fair value of identifiable net assets of businesses acquired. Goodwill is not amortized and is generally evaluated for impairment using a two-step process that is performed at least annually, or whenever events or circumstances indicate that impairment may have occurred.

In September 2011, the FASB issued ASU 2011-08, "Testing Goodwill for Impairment", which provided new accounting guidance on testing goodwill for impairment. The enhanced guidance provides an entity the option to first perform a qualitative assessment of whether a reporting unit's fair value is more likely than not less than its carrying value, including goodwill. In performing its qualitative assessment, an entity considers the extent to which adverse events or circumstances identified, such as changes in economic conditions, industry and market conditions or entity-specific events, could affect the comparison of the reporting unit's fair value with its carrying amount. If an entity concludes that the fair value of a reporting unit is more likely than not less than its carrying amount, the entity is required to perform the currently prescribed two-step goodwill impairment test to identify potential goodwill impairment and, accordingly, measure the amount, if any, of goodwill impairment loss to be recognized for that reporting unit. The guidance was effective for the Company as of January 1, 2012. The Company utilized this option when performing its annual impairment assessment in 2013 and concluded that its single reporting unit's fair value was more likely than not greater than its carrying value, including goodwill.

The first step of the two-step process is a comparison of the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying value, goodwill of the reporting unit is not considered impaired and the second step is unnecessary. If the carrying value of the reporting unit exceeds its fair value, a second step is performed to measure the amount of impairment by comparing the carrying amount of the goodwill to a determination of the implied fair value of the goodwill. If the carrying amount of the goodwill is greater than the implied value, an impairment loss is recognized for the difference. The implied value of the goodwill is determined as of the test date by performing a purchase price allocation, as if the reporting unit had just been acquired, using currently estimated fair values of the individual assets and liabilities of the reporting unit, together with an estimate of the fair value of the reporting unit taken as a whole. The estimate of the fair value of the reporting unit is based upon information available regarding prices of similar groups of assets, or other valuation techniques including present value techniques based upon estimates of future cash flows.

The Company has one reporting unit at September 30, 2014 and December 31, 2013. No goodwill impairment charges were recorded during the three and nine months ended September 30, 2014 and 2013.

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

Long-lived Assets

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

Partner Distributions

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