

STATEMENT OF FINANCIAL CONDITION

Tudor, Pickering, Holt & Co. Securities Inc.

With Report of Independent Registered Public Accounting Firm  
As of December 31, 2018

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

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**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

SEC FILE NUMBER
8-66251

**FACING PAGE**

**Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 01/01/18 AND ENDING 12/31/18  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Tudor, Pickering, Holt & Co. Securities, Inc.

OFFICIAL USE ONLY

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

FIRM I.D. NO.

1111 Bagby St, Ste 5100

(No. and Street)

Houston

TX

77002

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Alexandra Gottschalk, Chief Accounting Officer

(713) 333-7106

(Area Code -- Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Ernst & Young LLP

(Name -- if individual, state last, first, middle name)

5 Times Square

New York

NY

10036

(Address)

(City)

(State)

(Zip Code)

**CHECK ONE:**



Certified Public Accountant



Public Accountant



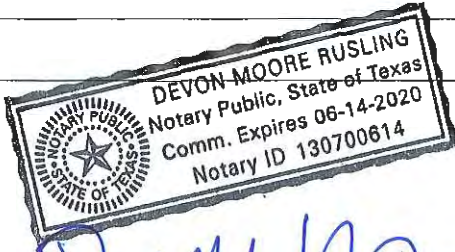
Accountant not resident in United States or any of its possessions.

**FOR OFFICIAL USE ONLY**

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

## OATH OR AFFIRMATION

I, Alexandra Gottschalk, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Tudor, Pickering, Holt & Co. Securities, Inc., as of December 31, 20 18, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:



[Signature]  
Notary Public

[Signature]  
Signature

Chief Accounting Officer  
Title

This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☐ (c) Statement of Income (Loss).
- ☐ (d) Statement of Changes in Financial Condition.
- ☐ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☐ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).**

Tudor, Pickering, Holt & Co. Securities, Inc.

Statement of Financial Condition

December 31, 2018

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## Report of Independent Registered Public Accounting Firm

To Management of Tudor, Pickering, Holt & Co. Securities, Inc.

### Opinion on the Financial Statement

We have audited the accompanying statement of financial condition of Tudor, Pickering, Holt & Co. Securities, Inc. (the "Company") as of December 31, 2018 and the related notes (the "financial statement"). In our opinion, the financial statement presents fairly, in all material respects, the financial position of the Company at December 31, 2018 in conformity with U.S. generally accepted accounting principles.

### Basis for Opinion

This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

*Ernst + Young LLP*

We have served as the Company's auditor since 2016.

February 18, 2019

Tudor, Pickering, Holt & Co. Securities, Inc.

Statement of Financial Condition

December 31, 2018

<b>Assets</b>		
Cash	\$	16,937,867
Receivables from affiliates		9,533,199
Fixed assets, net of accumulated depreciation and amortization		4,797,979
Income tax receivable		1,996,258
Deferred tax asset, net		691,532
Cash surrender value of company-owned life insurance		978,765
Prepaid expenses and other assets		984,718
Other trade receivables		596,231
Receivables from broker-dealers		210,932
Total assets	\$	<u>36,727,481</u>
<b>Liabilities and Stockholder's Equity</b>		
Liabilities		
Deferred rent	\$	5,750,110
Payables to affiliates		3,510,101
Accounts payable and accrued liabilities		689,076
Deferred compensation liability		367,414
Total liabilities		<u>10,316,701</u>
Commitments, contingencies and indemnifications (Note 14)		
Stockholder's Equity		
Common stock, no par value, 1,000,000 shares authorized, 65,000 shares issued and outstanding		20,488,182
Retained earnings		<u>5,922,598</u>
Total stockholder's equity		<u>26,410,780</u>
Total liabilities and stockholder's equity	\$	<u><u>36,727,481</u></u>

*The accompanying notes are an integral part of this Statement of Financial Condition.*

## **1. Organization**

Tudor, Pickering, Holt & Co. Securities, Inc. (the “Company”), a Texas corporation formed in October 2003 under the name Pickering Energy Partners, Inc., is a broker-dealer registered with the Securities and Exchange Commission (“SEC”) under rule 15c3-3(k)(2)(ii) and is a member of the Financial Industry Regulatory Authority (“FINRA”). The Company claims exemption under SEC Rule 15c3-3(k)(2)(ii) from certain regulations concerning reserves and protection of customer securities; consequently, Computation for Determination of Reserve Requirements and Information Relating to the Possession or Control Requirements pursuant to SEC Rule 15c3-3 are not required.

The Company is an introducing broker-dealer and does not maintain any margin accounts, promptly transmits any customer funds and delivers any securities received, and does not hold funds or securities for, or owe money or securities to customers. The Company introduces all of its customer transactions, which are not reflected within this Statement of Financial Condition, to a clearing broker, which clears such transactions on a fully disclosed basis. Pursuant to the terms of the agreement with the clearing broker, the clearing broker may charge the Company for uncollateralized margin loans receivable and for losses that result from a counterparty's failure to fulfill its contractual obligations. The right to charge the Company has no maximum amount and applies to all trades executed through the clearing broker. For the year ended December 31, 2018, the Company has not recorded any liabilities with regard to the clearing broker's rights.

The Company is a wholly owned subsidiary of Perella Weinberg Partners Group LP (“Parent”), a limited partnership wholly owned by PWP Holdings LP. The Company provides investment banking and financing advice and equity research, sales, and trading related to the energy industry. The Company also participates in the brokerage of publicly traded securities for commissions and participates in the underwriting of securities offered for initial sale in public markets. The Company is based in Houston, Texas, and maintains branch or secondary offices in Denver, Colorado, and New York, New York. At December 31, 2018, the Company was registered as a broker-dealer in 42 states and territories.

## **2. Summary of Significant Accounting Policies**

### **Use of Estimates**

The preparation of this Statement of Financial Condition in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”) requires management to make estimates and assumptions that affect the amounts reported in this Statement of Financial Condition and accompanying notes. The Company believes that the estimates utilized in preparing its Statement of Financial Condition are reasonable and prudent. Actual results could differ from these estimates.

### **Cash and Cash Equivalents**

Cash consists of cash held at banks. The Company defines cash equivalents as highly liquid financial instruments with original maturities of three months or less at the time of purchase. The Company maintains its cash with a major bank with a high credit rating. Cash can be withdrawn without restriction. As of December 31, 2018, the Partnership did not hold any cash equivalents.

### **Receivables from Broker-Dealers**

Receivables from broker-dealers include commissions receivable from and a deposit with the clearing broker, net of amounts due to the clearing broker related to trades pending as of December 31, 2018. As of December 31, 2018, the balance of the deposit with the clearing broker was \$254,594 and the amount due to the clearing broker was \$610,690. Under the terms of the agreement with the clearing broker, the Company must maintain either cash, U.S. Government or U.S. Government-insured securities, having an aggregate market value of \$250,000 in a deposit account. The Company must maintain the account until the termination of the clearing agreement.

### **Other Trade Receivables**

Other trade receivables are presented net of any allowance for doubtful accounts that are based on the Company's assessment of collectability. The Company regularly reviews its trade receivables for collectability and an allowance is recognized for doubtful accounts, if required. As of December 31, 2018, no allowance for doubtful accounts was deemed necessary.

### **Allowance for Doubtful Accounts**

Any allowance for doubtful accounts is recorded based upon the estimate of financial advisory fees, underwriting fees and other trade receivables that the Company does not expect to collect. It is estimated based on a number of factors, including the clients' ability to meet their financial obligations, as well as general factors such as the length of time the receivables are past due and historical collection experience. As of December 31, 2018, all receivables were determined to be collectible and therefore no allowance for doubtful accounts was deemed necessary.

### **Prepaid Expenses and Other Assets**

Prepaid expenses and other assets consists of prepaid amounts for subscriptions for research services, software licenses, insurance, and annual filing fees net of amortization. These amounts are amortized over the life related service period or policy. Prepaid expenses and other assets also includes securities held by the Company in the amount of \$621,451 related to trades pending as of December 31, 2018.

### **Revenue and Expense Recognition**

Initial Adoption—Effective January 1, 2018, the Company adopted Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09") and all related amendments using the modified retrospective method for all contracts, which requires a cumulative effect adjustment upon adoption. The Company concluded that there was no material impact to the recognition and measurement of its contracts with its customers upon adoption, and therefore, no adjustment to beginning retained earnings as of January 1, 2018, was recorded.

See Note 3—Revenue from Contracts with Customers for further information on contracts within the scope of ASU 2014-09.

### **Affiliate Expense Allocation**

Certain expenses of the Partnership are processed and paid by its affiliates: the Parent and PWP Employer LP. The expenses processed on behalf of the Partnership by PWP Employer LP relate solely to compensation. Expenses specifically related to the Company are paid directly by the Company, whereas shared expenses are allocated to each affiliate based upon various allocation methodologies, which utilize a combination of factors including, but not limited to, square footage, headcount, and percentage of time spent. These amounts result in receivables and payables with affiliates which are settled in cash within 12 months. See Note 12—Related Party Transactions for further explanation of affiliate transactions.



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**Employee Compensation and Benefits**

Employee compensation and benefits expense includes compensation, payroll taxes, deferred compensation, and other benefits for employees.

**Floor Brokerage and Clearance Fees**

Floor brokerage and clearance fees represent charges and exchange fees from clearing organizations for clearing trades, and are recognized when incurred.

**Fixed Assets**

Fixed assets include furniture, equipment, leasehold improvements and software development costs. Fixed assets are recorded at cost less accumulated depreciation and amortization on the Statement of Financial Condition. Depreciation of fixed assets begins once the asset is placed into service. Furniture and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, which range from three to five years. Leasehold improvements are amortized over the lesser of the estimated life of the improvement or remaining term of the lease. Certain software development costs are amortized over three years.

**Income Taxes**

U.S. GAAP provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the Statement of Financial Condition. U.S. GAAP requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet a "more-likely-than-not" threshold would be recorded as a tax expense in the current year. The Company utilizes the liability method of accounting for income taxes. Under this method, deferred income taxes are recorded based upon differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the underlying assets or liabilities are recovered or settled.

The provision for income taxes includes federal and state income taxes currently payable and those deferred because of temporary differences between the Statement of Financial Condition and tax basis of assets and liabilities. Penalties and interest related to income taxes, if any, are recognized separately from the provision for income taxes and included in other expenses.

**Recent Accounting Pronouncements**

*Revenue Recognition – Revenue from Contracts with Customers*—In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09. ASU 2014-09 updated the accounting standards for revenue from contracts with customers. The update provides a five step revenue recognition model for all revenue arising from contracts with customers and affects all entities that enter into contracts to provide goods or services to their customers. ASU 2014-09 also updates the accounting for certain costs associated with obtaining and fulfilling a customer contract and requires disclosure of quantitative and qualitative information that enables users of financial statements to understand the nature, amount, timing, and uncertainty of revenues and cash flows arising from contracts with customers. Subsequent related updates provide clarification on certain revenue recognition guidance in the new standard. The standard is effective for the Company's interim and annual periods beginning after December 15, 2017.

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The Company has adopted ASU 2014-09 using the modified retrospective approach as of January 1, 2018, which requires a cumulative effect adjustment upon adoption. The Company's implementation efforts included the identification of revenue streams subject to the guidance and the review of the customer contracts to determine the Company's performance obligation and the associated timing of each performance obligation. The Company concluded there is no impact to the recognition and measurement of contracts with customers and related incremental costs to obtain or fulfil such contracts. Therefore, adoption of the standard will not require an adjustment to beginning retained earnings as of January 1, 2018.

*Leases*—In February 2016, the FASB issued ASU No. 2016-02, *Leases* ("ASU 2016-02"), which requires lessees to recognize on its balance sheet assets and liabilities for substantially all of its leases. The new lease accounting standard also requires enhanced disclosure about leasing arrangements. In July 2018, the FASB issued ASU 2018-11, Targeted Improvements ("ASU 2018-11"), which provided an alternative but optional transition method that allows entities to apply the new lease accounting standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in that period. Under this alternative transition method, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new lease accounting standard will continue to be accounted for and reported under the ASC Topic 840 requirements. The new lease accounting standard is effective for fiscal years, and interim periods within those fiscal year, beginning after December 15, 2018. Early adoption is permitted.

The Company will adopt the new lease accounting standard effective as of January 1, 2019 using the alternative transition approach permitted by ASU 2018-11 and the impact will be reflected in the Company's financial statements thereafter. The Company elected the transition package of practical expedients to alleviate certain operational complexities related to the adoption, but has not elected the use of hindsight practical expedient.

The Company's lease commitments, as discussed in Note 14—Commitments, Contingencies and Indemnifications, primarily relates to office space and represents substantially all of the leases that will be subject to the new lease accounting standard. The Company is currently assessing both the qualitative and quantitative impact of the adoption of the new lease accounting standard on its financial statements, but anticipates the recognition of right-of-use assets and lease liabilities on the balance sheet in an amount consistent with the total present value of outstanding future minimum payments for operating leases as included in Note 14.

*Fair Value Measurement*—In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"). ASU 2018-13 provides amendments to Topic 820, which modify the disclosure requirements on fair value measurements in Topic 820 based on certain concepts, including the consideration of costs and benefits. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating ASU 2018-13 and the impact of adoption on its Statement of Financial Condition.

### **3. Revenue from Contracts with Customers**

The services provided under contracts with customers include research and trading services and underwriting services, each of which are typically identified as a separate performance obligation in contracts that contain more than one type of service.

December 31, 2018

*Research and Trading Services*

The Company, through a multitude of work products, provides research on the energy industry and related equity and commodity markets and also produces research on topical issues within the energy sector. The Company's research clients are continuously benefitting from the research provided throughout the arrangement, and, accordingly, over time revenue recognition matches the transfer of such benefits. Recipients of this research compensate the Company for these market insights in two ways—either by direct payment (the amount of which is typically at the customer's discretion based upon the perceived value of the research services provided) or through trades directed through the Company's trading desk (for commission generation) or through third-party commission sharing agreements. These services are sometimes referred to as "soft-dollar arrangements," and the amount of payment is typically based on a percentage of commission income generated from the customer's trades executed by the Company. The commission per share and volume of trades are at the customer's discretion based upon the perceived value of the research services and trade execution provided. Generally, the Company does not provide trading services separate and apart from research services (i.e., customers do not typically execute trades through the Company in the normal course of business; rather, trade execution is used as a means to be compensated for research services).

Because fees received for research services, and any associated trading services, are typically at the complete discretion of the customer and are based on the value the customer perceives in the research services provided, the entire transaction price associated with such services is variable. Accordingly, because of the broad range of possible outcomes and the inability to predict the value the customer will ascribe to such services, the Company fully constrains the revenue associated with research services, and any associated trading services, until the uncertainty associated with the variable consideration is subsequently resolved, which is typically upon the earlier of receiving an invoice request from the client or receiving payment from the client for direct payments and upon execution of the trade for commissions.

*Underwriting Services*

Revenue associated with underwriting services includes management fees, selling concessions and underwriting fees attributable to public and private offerings of equity and debt securities. The nature of the Company's underwriting services is raising capital on behalf of an issuer and therefore is typically accounted for as a single performance obligation. A separate performance obligation is identified in instances in which the contract with the customer includes an over-allotment option. The Company's underwriting services generally do not meet any of the requirements for revenue to be recognized over time and, therefore, the Company typically recognizes underwriting revenue on the pricing date of the offering, which is when the Company receives the pricing wire communication from the lead underwriter detailing the underwriting fees to which the Company is entitled. Similarly, the performance obligation associated with the over-allotment is satisfied at the point in time at which the option is exercised.

The Company's role in underwriting commitments is usually as a co-manager or bookrunner, rather than as the lead underwriter. Accordingly, the Company estimates its share of transaction-related expenses incurred by the underwriting syndicate on the pricing date of the offering. Such amounts are adjusted to reflect actual expenses in the period in which the Company receives the final settlement, typically within 90 days following the closing of the transaction.

*Contract Costs*

Incremental costs of obtaining a contract are expensed as incurred as such costs are generally not recoverable. Costs to fulfill contracts consist of underwriting expenses and are expensed on the pricing date of the offering.

*Contract Balances*

The timing of revenue recognition may differ from the timing of payment. The Company records a receivable when revenue is recognized prior to payment and the Company has an unconditional right to payment. These balances are included in Receivables from broker-dealers and Other trade receivables on the Statement of Financial Condition.

Tudor, Pickering, Holt & Co. Securities, Inc.

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The Company records deferred revenue (otherwise known as contract liabilities) when it receives fees from clients that have not yet been earned or when the Company has an unconditional right to consideration before all performance obligations are complete. As of December 31, 2018, the Company recorded \$2,500 of deferred revenue in Accounts payable and accrued liabilities on the Statement of Financial Condition.

**4. Net Capital Requirement**

As a registered broker-dealer, the Company is subject to the Securities and Exchange Commission's Uniform Net Capital Rule 15c3-1 (the "Rule"). In accordance with paragraph (a)(2) of the Rule, the Company is required to maintain minimum net capital equal to the greater of the minimum net capital requirement of \$100,000 or 6 2/3% of aggregate indebtedness, as defined by the Rule. At December 31, 2018, the Company had net capital of \$8,376,811, which resulted in excess net capital of \$7,737,100. The Company's ratio of aggregate indebtedness to net capital was 1.15 to 1.

The Company must also maintain a minimum net capital as determined by FINRA rules and provide insurance covering any and all acts of the Company's employees, agents and partners of at least \$800,000 during the term of the agreement. The Company is required to be in compliance with applicable local, state and federal regulations.

**5. Loan Receivable from Parent**

As of January 1, 2018, the Company had a \$3,750,000 loan outstanding to the Parent bearing interest at 0.7%. For the year ended December 31, 2018, the Parent made principal payments of \$3,750,000 and interest payments of \$25,531 to the Company, thereby paying off the loan. Thus, no principal or accrued interest were outstanding as December 31, 2018.

**6. Fixed Assets**

Fixed assets consists of the following:

Furniture and office equipment	\$ 6,972,988
Leasehold improvements	10,333,499
Software	2,337,463
Less: Accumulated depreciation	(14,845,971)
	<u>\$ 4,797,979</u>

**7. Fair Value Measurements**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by FASB Accounting Standards Codification ("ASC") 820, are used to measure fair value.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the reporting date.
- Level 2 inputs are quoted prices in markets that are not active or based on quoted prices for similar assets or liabilities or for which all significant inputs are observable, directly or indirectly.
- Level 3 are unobservable inputs for the asset or liability and rely on management's own judgment about the assumptions that market participants would use in pricing the asset or liability. The unobservable inputs should be developed based on the best information available in the circumstances and may include the Company's own data.

	Fair Value as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash surrender value of company-owned life insurance	\$ -	\$ 978,765	\$ -	\$ 978,765
Securities held	621,451	-	-	621,451
<b>Total assets</b>	<u>\$ 621,451</u>	<u>\$ 978,765</u>	<u>\$ -</u>	<u>\$ 1,600,216</u>
<b>Liabilities and subordinated borrowings</b>				
Deferred compensation liability	\$ -	\$ 367,414	\$ -	\$ 367,414
<b>Total liabilities and subordinated borrowings</b>	<u>\$ -</u>	<u>\$ 367,414</u>	<u>\$ -</u>	<u>\$ 367,414</u>

Transfers between levels are recognized at the end of the year in which they occur. There have been no transfers between Level 1, Level 2 or Level 3 assets or liabilities during the year ended December 31, 2018.

Cash surrender value of company-owned life insurance is reported in the Statement of Financial Condition at the amount that could be realized under the contract as of December 31, 2018, which approximates fair value.

Securities held by the Company related to pending trades are reported using the public stock price as of December 31, 2018.

Historically, employees have had the option to defer a portion of their compensation and elect certain hypothetical investments in which the deferrals are deemed invested in. The deferred compensation liability is recorded at fair value on the Statement of Financial Condition. The significant input into the Company's determination of the fair value of the deferred compensation liability is the net asset value ("NAV") per share of the investment funds selected by participating employees. See Note 11—Deferred Compensation Plan and Company-Owned Life Insurance for further details about the deferred compensation plan.

Other financial instruments are recorded by the Company at contract amounts and include cash, a Level 1 financial instrument, and receivables from broker-dealers, receivables from and payables to affiliates, other trade receivables, and accounts payable and accrued liabilities, which are Level 2 financial instruments. All financial instruments carried at contract amounts either have short-term maturities (one year or less), or bear market interest rates and, accordingly, are carried at amounts approximating fair value.

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**8. Income Taxes**

Deferred income taxes resulted from the following temporary differences:

Deferred tax assets	
Deferred rent	\$ 1,251,076
Federal tax loss carryforward	59,375
State tax loss carryforward	64,402
	<u>1,374,853</u>
Deferred tax liabilities	
Depreciation	(683,321)
	<u>(683,321)</u>
Net deferred tax asset	<u>\$ 691,532</u>

The Company maintains no valuation allowance against its deferred tax assets as it is “more-likely-than-not” that the Company will realize these deferred tax assets in the future. The Company’s net operating loss carryforward will begin to expire in tax year 2037.

The Company files a U.S. federal income tax return. The Company is no longer subject to U.S. federal income tax examination by the taxing authorities for years before 2014. The Company files in several state tax jurisdictions. The Company is no longer subject to state income tax examination by the taxing authorities in Texas for years before 2013, by taxing authorities in Colorado for years before 2013 and by taxing authorities in New York for years before 2014. The Company has concluded that no uncertain tax positions exist that require recognition or disclosure at December 31, 2018 and does not expect the assessment of uncertain tax positions to significantly change in the next 12 months.

**9. Deferred Rent**

The Company recognizes rent expense for scheduled rent increases and rent holidays by amortizing the aggregate lease payments on a straight-line basis over the lease term. The difference between actual operating lease payments due and straight-line rent expense, which is recorded by the Company over the term of the lease is recorded as deferred rent in the early years of the lease, when cash payments are generally lower than straight-line rent expense, and reduced in the later years of the lease when payments begin to exceed the straight-line expense. Also included in deferred rent are tenant improvement allowances received by the Company from its landlords. These allowances are being amortized over the lease term as a reduction to rent expense. At December 31, 2018, the unamortized tenant improvement allowance included in deferred rent was \$721,036.

**10. Employee Benefit Plan**

The Company’s employees participate in a defined contribution pension plan qualified under Section 401(k) of the Internal Revenue Code and sponsored by the Parent. The plan allows qualifying employees to contribute their eligible compensation, subject to Internal Revenue Service limits. The Parent makes a safe harbor non-elective contribution of 3% of the participant’s eligible compensation per calendar year. The Parent may also make a discretionary contribution for participants employed on December 31<sup>st</sup> of each year.

## 11. Deferred Compensation Plan and Company-Owned Life Insurance

The Company has a nonqualified deferred compensation plan (“DCP”) covering certain employees. Historically, the DCP allowed participants to defer up to 50% of their compensation. The DCP participants are allowed to elect certain hypothetical investments in which their deferrals are deemed to be invested for purposes of measuring the allocation of net income or net losses to each participant. Based upon the fair value of each participant’s hypothetical investments, the DCP obligation at December 31, 2018 was \$367,414 with annual distributions expected through 2025. The DCP was suspended during 2011 and therefore no deferrals were made during 2018. During 2018, distributions of \$619,576 were made from the DCP.

The Company maintains company-owned life insurance policies which are designed to offset a portion of the DCP liability. The policies are reported in the Statement of Financial Condition at the cash surrender value or the amount that could be realized under the contract as of December 31, 2018 of \$978,765. During 2018, the Company received \$560,479 in cash value for policies surrendered in order to pay a portion of the related deferred compensation distribution mentioned above.

## 12. Related Party Transactions

The Company receives and pays fees to affiliates for services provided and received.

*Network support fees* – The Company and its domestic and foreign affiliates provide global financial advisory services. As part of a globally integrated network, each affiliate contributes activities which add to the reputation, knowledge, experience, thought leadership, and client relationships of the global organization. The Company and its domestic and foreign affiliates apply a global transfer pricing policy using the Comparable Profits Method, in which a network support fee is provided to an operating affiliate which is unable to sustain a profit by the revenues generated on a stand-alone basis.

*Facility fees* – The Company pays for rent expense on all leases as well as furniture, equipment and leasehold improvements. Affiliates reimburse the Company for usage of the office space and the depreciation of furniture, equipment and leasehold improvements through payment of a facility fee. The fee is calculated on a monthly basis based upon square footage and headcount.

*Administrative fees* – The Company receives administrative services, including payroll, health care and the defined contribution plan, based upon a service agreement between the Company and PWP Employer LP. Under the service agreement the Company pays a fee based upon \$4 per day per employee.

*Parent loan interest income* – The Company earned interest income on the \$3,750,000 loan to the Parent before it was fully repaid by the Parent during 2018. See Note 5—Loan Receivable from Parent for further information.

### *Affiliate Expense Allocation*

The Company receives administrative services including but not limited to, legal, accounting, information technology, human resources, incentive compensation plans and other support provided by the Parent and PWP Employer LP. Where feasible to specifically attribute such expenses to the activities of the Company, the amounts have been expensed directly by the Company. Allocations of expenses not directly attributable to the Company reflect the utilization of services provided or benefits received by the Company presented on a consistent basis based on the most relevant measure, such as relative usage or pro-rata basis of headcount.

The Parent files one combined Texas state tax return for its affiliates, including the Company, and remits all taxes due on their behalf.

### *Outstanding Receivables and Payables*

As of December 31, 2018, the Company has outstanding receivables from and payables to affiliates related to the above transactions which are shown separately on the Statement of Financial Condition. The Company settles receivables and payables with affiliates in cash within 12 months of incurrence.

## Statement of Financial Condition

December 31, 2018

**13. Debt**

On February 2, 2018, the Company entered into a temporary subordinated loan agreement with Cadence Bank. The loan was for \$5,000,000 with a 4.5% interest rate and a maturity date of March 23, 2018. The loan was approved by FINRA and funded to the Company on February 6, 2018. The total principal amount of the loan, along with accrued interest, was prepaid on February 16, 2018, subsequent to prepayment approval from FINRA on the same day.

**14. Commitments, Contingencies and Indemnifications**

The Company leases office space and equipment under operating lease agreements that expire on various dates through 2027. Certain leases contain renewal options and escalation clauses.

Future minimum rentals under such leases are as follows:

<b>Years Ending</b>	<b>Minimum Rental Commitments</b>
2019	\$ 4,289,193
2020	4,268,710
2021	4,323,219
2022	4,378,913
2023	4,435,793
Thereafter	16,762,662
	<u>\$ 38,458,490</u>

In the normal course of its operations, the Company enters into contracts that contain a variety of representations and warranties and which provide general indemnifications. The Company's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Company that have not yet occurred. However, based on experience, the Company expects the risk of loss to be remote.

**15. Concentration of Credit Risk and Sector Risk**

The Company maintains cash deposits with banks and brokerage firms which from time to time may exceed federally insured limits. Management periodically assesses the financial condition of these institutions and believes that risk of loss is remote.

Other trade receivables represents amounts due from clients within the energy industry. As of December 31, 2018, certain trade receivables in the aggregate amount of \$369,867 were individually greater than 10% of the Company's accounts receivable as of that date and were concentrated with three clients. The total \$369,867 was received subsequent to December 31, 2018, and as such, the Company is not exposed to potential loss due to credit risk related to these concentrated receivables.

**16. Subsequent Events**

The Company has performed an evaluation of subsequent events through February 18, 2019, which is the date the Statement of Financial Condition was available for issuance. There have been no material subsequent events that would require recognition in this Statement of Financial Condition or disclosures in the notes of the Statement of Financial Condition.