

Section 1: 10-Q (10-Q)

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2018

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: 001-37537

Houlihan Lokey, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

95-2770395

(I.R.S. Employer
Identification Number)

10250 Constellation Blvd.

5th Floor

Los Angeles, California 90067

(Address of principal executive offices) (Zip Code)

(310) 788-5200

(Registrant's telephone number, including area code)

N/A

(Former 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 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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying

with any new or revised financial accounting standards provided pursuant to Section 13(a) of the 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 November 2, 2018, the registrant had 34,722,318 shares of Class A common stock, \$0.001 par value per share, and 31,033,243 shares of Class B common stock, \$0.001 par value per share, outstanding.

HOULIHAN LOKEY, INC.
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HOULIHAN LOKEY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(\$ in thousands, except share data and par value)

| | September 30, 2018 | March 31, 2018 |
|---|-------------------------------|---------------------------|
| | (unaudited) | |
| Assets: | | |
| Cash and cash equivalents | \$ 227,599 | \$ 206,723 |
| Restricted cash (note 2) | 366 | 93,500 |
| Investment securities (fair value of \$26,560 and \$209,266 as of September 30 and March 31, 2018) | 26,565 | 209,319 |
| Accounts receivable, net of allowance for doubtful accounts of \$11,501 and \$11,391 as of September 30 and March 31, 2018, respectively | 66,010 | 77,259 |
| Unbilled work in process | 31,841 | 45,862 |
| Receivable from affiliates | 7,870 | 8,732 |
| Property and equipment, net of accumulated depreciation of \$40,945 and \$37,078 as of September 30 and March 31, 2018, respectively | 31,699 | 32,146 |
| Goodwill and other intangibles, net | 799,322 | 723,310 |
| Other assets | 29,134 | 21,990 |
| Total assets | \$ 1,220,406 | \$ 1,418,841 |
| Liabilities and Stockholders' Equity | | |
| Liabilities: | | |
| Accrued salaries and bonuses | \$ 268,548 | \$ 377,901 |
| Accounts payable and accrued expenses | 41,183 | 40,772 |
| Deferred income | 30,946 | 3,620 |
| Income taxes payable | 7,941 | 9,967 |
| Deferred income taxes | 10,148 | 22,180 |
| Forward purchase liability | — | 93,500 |
| Loans payable to former shareholders | 2,642 | 3,036 |
| Loan payable to non-affiliate | 8,899 | 8,825 |
| Other liabilities | 21,793 | 6,227 |
| Total liabilities | 392,100 | 566,028 |
| Stockholders' equity: | | |
| Class A common stock, \$0.001 par value. Authorized 1,000,000,000 shares; issued and outstanding 34,696,005 and 30,604,405 shares as of September 30 and March 31, 2018, respectively | 35 | 31 |
| Class B common stock, \$0.001 par value. Authorized 1,000,000,000 shares; issued and outstanding 31,063,445 and 37,187,932 shares as of September 30 and March 31, 2018, respectively | 31 | 37 |
| Treasury stock, at cost; 0 and 2,000,000 shares as of September 30 and March 31, 2018, respectively | — | (93,500) |
| Additional paid-in capital | 636,150 | 753,077 |
| Retained earnings | 222,324 | 207,124 |
| Accumulated other comprehensive loss | (30,234) | (13,956) |
| Total stockholders' equity | 828,306 | 852,813 |
| Total liabilities and stockholders' equity | \$ 1,220,406 | \$ 1,418,841 |

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

HOULIHAN LOKEY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(\$ in thousands, except share and per share data)
(unaudited)

| | Three Months Ended September 30, | | Six Months Ended September 30, | |
|--|----------------------------------|------------|--------------------------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues ^(a) | \$ 274,992 | \$ 242,183 | \$ 494,994 | \$ 459,674 |
| Operating expenses: | | | | |
| Employee compensation and benefits | 175,321 | 161,295 | 314,501 | 306,804 |
| Travel, meals, and entertainment | 10,111 | 6,229 | 19,697 | 11,907 |
| Rent | 10,437 | 6,959 | 18,625 | 14,149 |
| Depreciation and amortization | 3,706 | 2,175 | 7,174 | 4,149 |
| Information technology and communications | 4,709 | 4,966 | 10,298 | 9,242 |
| Professional fees | 5,784 | 3,371 | 12,061 | 5,758 |
| Other operating expenses ^(b) | 8,749 | 3,862 | 16,333 | 7,466 |
| Total operating expenses | 218,817 | 188,857 | 398,689 | 359,475 |
| Operating income | 56,175 | 53,326 | 96,305 | 100,199 |
| Other (income) expenses, net ^(c) | (1,007) | (200) | (2,613) | (1,706) |
| Income before provision for income taxes | 57,182 | 53,526 | 98,918 | 101,905 |
| Provision for income taxes | 17,063 | 20,169 | 29,115 | 29,304 |
| Net income | \$ 40,119 | \$ 33,357 | \$ 69,803 | \$ 72,601 |
| Other comprehensive income, net of tax: | | | | |
| Foreign currency translation adjustments | (3,695) | 2,692 | (16,278) | 7,753 |
| Comprehensive income | \$ 36,424 | \$ 36,049 | \$ 53,525 | \$ 80,354 |
| Attributable to Houlihan Lokey, Inc. common stockholders: | | | | |
| Weighted average shares of common stock outstanding: | | | | |
| Basic | 62,258,919 | 62,117,998 | 62,620,017 | 62,230,177 |
| Fully Diluted | 66,045,921 | 66,907,890 | 66,099,770 | 66,640,539 |
| Net income per share of common stock (note 13) | | | | |
| Basic | \$ 0.64 | \$ 0.54 | \$ 1.11 | \$ 1.17 |
| Fully Diluted | \$ 0.61 | \$ 0.50 | \$ 1.06 | \$ 1.09 |

(a) including related party revenue of \$6,147 and \$2,443 during the three months ended September 30, 2018 and 2017, respectively, and \$8,495 and \$2,806 during the six months ended September 30, 2018 and 2017, respectively.

(b) including related party income (expense) of \$224 and \$(38) during the three months ended September 30, 2018 and 2017, respectively, and \$224 and \$134 during the six months ended September 30, 2018 and 2017, respectively.

(c) including related party interest expense of \$0 during the three months ended September 30, 2018 and 2017, and \$0 and \$62 during the six months ended September 30, 2018 and 2017, respectively. Also, including related party interest income of \$24 and \$29 during the three months ended September 30, 2018 and 2017, respectively, and \$48 and \$61 during the six months ended September 30, 2018 and 2017, respectively. The Company recognized gain (loss) related to investments in unconsolidated entities of \$453 and \$(390) for the three months ended September 30, 2018 and 2017, respectively, and \$906 and \$(220) for the six months ended September 30, 2018 and 2017, respectively.

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

| | | | | | | | | | | | |
|---|-------------------|-------------|-------------------|-------------|----------|-------------|-------------------|------------------|--------------------|-------------|-------------------|
| B to Class A shares | 2,001,689 | 2 | (2,001,689) | (2) | — | — | — | — | — | — | — |
| Shares issued to non-employee directors (note 14) | 4,212 | — | — | — | — | — | 187 | — | — | — | 187 |
| Other shares repurchased/forfeited | (1,110,141) | (1) | (84,959) | — | — | — | (56,178) | — | — | — | (56,179) |
| Net income | — | — | — | — | — | — | — | 69,803 | — | — | 69,803 |
| Change in unrealized translation | — | — | — | — | — | — | — | — | (16,278) | — | (16,278) |
| Total comprehensive income | — | — | — | — | — | — | — | — | — | — | 53,525 |
| Balances - September 30, 2018 | <u>34,696,005</u> | <u>\$35</u> | <u>31,063,445</u> | <u>\$31</u> | <u>—</u> | <u>\$ —</u> | <u>\$ 636,150</u> | <u>\$222,324</u> | <u>\$ (30,234)</u> | <u>\$ —</u> | <u>\$ 828,306</u> |

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

HOULIHAN LOKEY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(\$ in thousands, except share data)
(unaudited)

| | Six Months Ended September 30, | |
|---|---------------------------------------|-------------|
| | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Net income | \$ 69,803 | \$ 72,601 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Deferred tax expense | (4,602) | 421 |
| Provision for bad debts | 613 | 979 |
| Depreciation and amortization | 7,174 | 4,149 |
| Contingent consideration valuation | (708) | — |
| Compensation expenses – restricted share grants (note 14) | 30,759 | 23,562 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 27,550 | 20,707 |
| Unbilled work in process | 14,021 | 23,218 |
| Other assets | (7,144) | 277 |
| Accrued salaries and bonuses | (114,099) | (63,853) |
| Accounts payable and accrued expenses | (832) | (5,267) |
| Deferred income | (4,485) | 1,472 |
| Income taxes payable | (2,193) | (10,547) |
| Net cash provided by operating activities | 15,857 | 67,719 |
| Cash flows from investing activities: | | |
| Purchases of investment securities | (26,513) | (60,558) |
| Maturities of investment securities | 209,268 | — |
| Acquisition of business, net of cash acquired | (71,407) | (2,825) |
| Changes in receivables from affiliates | 862 | 1,229 |
| Purchase of property and equipment, net | (3,199) | (5,529) |
| Net cash provided by (used in) investing activities | 109,011 | (67,683) |
| Cash flows from financing activities: | | |
| Dividends paid | (33,574) | (24,894) |
| Settlement of forward purchase contract | (93,500) | (192,372) |
| Shares purchased under stock repurchase program | — | (15,139) |
| Other share repurchases | (54,233) | (1,835) |
| Payments to settle employee tax obligations on share-based awards | (1,947) | (60) |
| Earnouts paid | (1,923) | — |
| Stock subscriptions receivable redeemed | — | 124 |
| Loans payable to former shareholders redeemed | (394) | (1,479) |
| Repayments of loans to affiliates | — | (15,000) |
| Other financing activities | 187 | 247 |
| Net cash used in financing activities | (185,384) | (250,408) |
| Effects of exchange rate changes on cash, cash equivalents, and restricted cash | (11,742) | 3,042 |
| Decrease in cash, cash equivalents, and restricted cash | (72,258) | (247,330) |
| Cash, cash equivalents, and restricted cash – beginning of period | 300,223 | 492,686 |
| Cash, cash equivalents, and restricted cash – end of period | \$ 227,965 | \$ 245,356 |
| Supplemental disclosures of noncash activities: | | |
| Fully depreciated assets written off | \$ — | \$ 16 |
| Fully amortized intangibles written off | 8,272 | — |
| Cash acquired through acquisitions | 16,141 | — |
| Cash paid during the period: | | |
| Interest | \$ 432 | \$ 382 |
| Taxes | 40,450 | 39,431 |

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

HOULIHAN LOKEY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)

(All tables and balances are in thousands, except share data or otherwise stated)

(1) BACKGROUND

Houlihan Lokey, Inc. ("Houlihan Lokey," or "HL, Inc." also referred to as the "Company," "we," "our," or "us") is a Delaware corporation that controls the following primary subsidiaries:

- Houlihan Lokey Capital, Inc., a California corporation ("HL Capital, Inc."), is a wholly owned direct subsidiary of HL, Inc. HL Capital, Inc. is registered as a broker-dealer under Section 15(b) of the Securities Exchange Act of 1934 and a member of the Financial Industry Regulatory Authority, Inc.
- Houlihan Lokey Financial Advisors, Inc., a California corporation ("HL FA, Inc."), is a wholly owned direct subsidiary of HL, Inc.
- Houlihan Lokey EMEA, LLP, a limited liability partnership registered in England ("HL EMEA, LLP"), is an indirect subsidiary of HL, Inc. HL EMEA, LLP is regulated by the Financial Conduct Authority in the United Kingdom ("U.K.").

On August 18, 2015, the Company successfully completed an initial public offering ("IPO") of its Class A common stock.

Prior to a corporate reorganization that was consummated immediately prior to the closing of the IPO, the Company was incorporated in California as Houlihan Lokey, Inc., a California corporation ("HL CA"), and was a wholly owned indirect subsidiary of Fram Holdings, Inc., a Delaware corporation ("Fram"), which, in turn, was a majority owned subsidiary of ORIX Corporation USA (formerly ORIX USA Corporation), a Delaware corporation ("ORIX USA"), with the remaining minority interest being held by Company employees ("HL Holders"). ORIX USA and the HL Holders held their interests in HL CA indirectly through their ownership of Fram. On July 24, 2015, HL CA merged with and into HL, Inc., with HL, Inc. as the surviving entity. In connection with the IPO, the HL Holders deposited their shares of HL, Inc. Class B common stock into a voting trust (the "HL Voting Trust") and own such common stock through the HL Voting Trust. Houlihan Lokey separated from Fram and as a result, HL, Inc. common stock is held directly by ORIX USA (through ORIX HLHZ Holding, LLC, its wholly owned subsidiary), the HL Voting Trust, for the benefit of the HL Holders, non-employee directors, and public shareholders.

In addition, prior to the consummation of the IPO, the Company distributed to its existing owners a dividend of \$270.0 million, consisting of (i) a short-term note in the aggregate amount of \$197.2 million, which was repaid immediately after the consummation of the IPO, and was allocated \$94.5 million to ORIX USA and \$102.7 million to the HL Holders, (ii) a note to ORIX USA in the amount of \$45.0 million (see note 10), and (iii) certain of our non-operating assets to certain of the HL Holders (consisting of non-marketable minority equity interests in four separate businesses that ranged in carrying value from \$2.5 million to \$11.0 million, and were valued in the aggregate at approximately \$22.8 million as of June 30, 2015), together with \$5.0 million in cash to be used to complete a potential additional investment and in the administration of these assets in the future. All issued and outstanding Fram shares were converted to HL, Inc. common stock at a ratio of 10.425 shares for each share of Fram stock. Immediately following the IPO, there were two classes of authorized HL, Inc. common stock: Class A common stock and Class B common stock. The rights of the holders of Class A common stock and Class B common stock are identical, except with respect to voting and conversion rights. Each share of Class A common stock is entitled to one vote per share, and each share of Class B common stock is entitled to ten votes per share. Each share of Class B common stock may be converted into one share of Class A common stock at the option of its holder and will be automatically converted into one share of Class A common stock upon transfer thereof, subject to certain exceptions. As of September 30, 2018, there were 34,033,702 Class A shares held by the public, 52,582 Class A shares held by non-employee directors, and 609,721 Class A shares held by ORIX USA. In addition, there were 25,295,231 Class B shares held by the HL Voting Trust, and 5,768,214 Class B shares held by ORIX USA.

The Company did not receive any proceeds from the sale of its Class A common stock in the IPO.

HOULIHAN LOKEY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)

(All tables and balances are in thousands, except share data or otherwise stated)

Expenses related to the corporate reorganization and IPO recorded in the consolidated statements of comprehensive income include the following:

- \$3,549 and \$3,590 of compensation expenses associated with the amortization of restricted stock granted in connection with the IPO during the three months ended September 30, 2018 and 2017, respectively, and \$6,872 and \$7,159 during the six months ended September 30, 2018 and 2017, respectively; amortization expense of restricted stock granted in connection with the IPO is being recognized over a four and one-half year vesting period; and
- \$2,653 and \$2,709 of compensation expenses associated with the accrual of certain deferred cash payments granted in connection with the IPO during the three months ended September 30, 2018 and 2017, respectively, and \$5,406 and \$5,452 during the six months ended September 30, 2018 and 2017, respectively; accrual expense of deferred cash payments granted in connection with the IPO is being recognized over a four and one-half year vesting period.

On February 14, 2017, pursuant to a registered underwritten public offering, we issued and sold 6,000,000 shares of our Class A common stock and certain of our former and current employees and members of our management (the "Selling Stockholders") sold 2,000,000 shares of our Class A common stock, in each case, at a price to the public of \$29.25 per share (the "February 2017 Follow-on Offering"). On March 15, 2017, we issued and sold an additional 900,000 shares of Class A common stock and the Selling Stockholders sold an additional 300,000 shares of Class A common stock in connection with the underwriters' exercise in full of their option to purchase additional shares in the February 2017 Follow-on Offering.

In connection with, and prior to, the February 2017 Follow-on Offering, on February 6, 2017, we entered into a Forward Share Purchase Agreement (the "February 2017 Forward Share Purchase Agreement"), with an indirect wholly owned subsidiary of ORIX USA pursuant to which we agreed to repurchase from ORIX USA on April 5, 2017 the number of shares of our Class B common stock equal to the number of shares of our Class A common stock sold by us in the February 2017 Follow-on Offering (including any shares sold upon the exercise by the underwriters of their option to purchase additional shares of our Class A common stock) for a purchase price per share equal to the public offering price in the February 2017 Follow-on Offering less underwriting discounts and commissions. The cash proceeds from the February 2017 Follow-on Offering that were used to consummate the purchase pursuant to the February 2017 Forward Share Purchase Agreement were held in an escrow account as of March 31, 2017 and presented as restricted cash as discussed in note 2. On April 5, 2017 we settled the transaction provided for in the February 2017 Forward Share Purchase Agreement and acquired 6,900,000 shares of Class B common stock from ORIX USA using the net proceeds we received from the February 2017 Follow-on Offering. In accordance with the terms of the February 2017 Forward Share Purchase Agreement, the purchase price per share was reduced by the per share amount of the dividend paid to ORIX USA on the shares of our Class B common stock subject to the February 2017 Forward Share Purchase Agreement prior to the settlement of such transaction. As the February 2017 Forward Share Purchase Agreement required physical settlement by purchase of a fixed number of shares in exchange for cash, the 6,900,000 shares that were purchased are excluded from the Company's calculation of basic and diluted earnings per share in the Company's financial statements for the year ended March 31, 2017. In addition, as the agreement provides for the refund of any dividends paid during the term on the underlying Class A common stock, such shares are not classified as participating securities and the Company does not apply the two-class method for calculating its earnings per share.

On October 25, 2017, pursuant to a registered underwritten public offering, ORIX USA sold 1,750,000 shares of our Class A common stock and certain of our former and current employees and members of our management sold 1,750,000 shares of our Class A common stock, in each case, at a price to the public of \$42.00 per share, and such transaction closed on October 30, 2017 (the "October 2017 Follow-on Offering"). On November 3, 2017, ORIX USA sold an additional 125,000 shares of Class A common stock and our former and current employees and members of our management sold an additional 125,000 shares of Class A common stock in connection with the underwriters' partial exercise of their option to purchase additional shares in the offering.

On March 12, 2018, pursuant to a registered underwritten public offering, we issued and sold 2,000,000 shares of our Class A common stock and certain of our former and current employees and members of our management sold 2,000,000 shares of our Class A common stock, in each case, at a price to the public of \$47.25 per share (the "March 2018 Follow-on Offering").

HOULIHAN LOKEY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)

(All tables and balances are in thousands, except share data or otherwise stated)

In connection with, and prior to, the March 2018 Follow-on Offering, on January 26, 2018, we entered into a Forward Share Purchase Agreement (the "January 2018 Forward Share Purchase Agreement"), with an indirect wholly owned subsidiary of ORIX USA pursuant to which we agreed to purchase from ORIX USA on April 5, 2018 the number of shares of our Class B common stock equal to the number of shares of our Class A common stock sold by us in the March 2018 Follow-on Offering for a purchase price per share equal to the public offering price in the March 2018 Follow-on Offering less underwriting discounts and commissions. The cash proceeds from the March 2018 Follow-on Offering that were used to consummate the purchase pursuant to the January 2018 Forward Share Purchase Agreement were held in an escrow account as of March 31, 2018 and presented as restricted cash as discussed in note 2. On April 5, 2018 we settled the transaction provided for in the January 2018 Forward Share Purchase Agreement and acquired 2,000,000 shares of Class B common stock from ORIX USA using the net proceeds we received from the March 2018 Follow-on Offering. As the January 2018 Forward Share Purchase Agreement required physical settlement by purchase of a fixed number of shares in exchange for cash, the 2,000,000 shares that were purchased are excluded from the Company's calculation of basic and diluted earnings per share in the Company's financial statements for the year ended March 31, 2018. In addition, as the agreement provides for the refund of any dividends paid during the term on the underlying Class A common stock, such shares are not classified as participating securities and the Company does not apply the two-class method for calculating its earnings per share.

In April 2018, the Company completed the acquisition of Quayle Munro Limited, an independent advisory firm that provides corporate finance advisory services to companies underpinned by data & analytics, content, software, and services.

In May 2018, the Company completed the acquisition of BearTooth Advisors, an independent advisory business providing strategic advisory and placement agency services to alternative investment managers.

On June 4, 2018, pursuant to a registered underwritten public offering, ORIX USA sold 1,985,983 shares of our Class A common stock and certain of our former and current employees and members of our management sold 1,014,017 shares, in each case, at a price to the public of \$49.15 per share (the "June 2018 Follow-on Offering"). Concurrently with the closing of the offering, the Company repurchased from ORIX USA 697,000 shares of Class A Common Stock at a purchase price per share of \$49.11.

The Company offers financial services and financial advice to a broad clientele located throughout the United States of America, Europe, and the Asia-Pacific region. The Company has U.S. offices in Los Angeles, San Francisco, Chicago, New York City, Minneapolis, McLean (Virginia), Dallas, Houston, Miami, and Atlanta as well as foreign offices in London, Paris, Frankfurt, Madrid, Amsterdam, Dubai, Sydney, Tokyo, Hong Kong, Beijing and Singapore. Together, the Company and its subsidiaries form an organization that provides financial services to meet a wide variety of client needs. The Company concentrates its efforts toward the earning of professional fees with focused services across the following three business segments:

- Corporate Finance provides general financial advisory services in addition to advice on mergers and acquisitions and capital markets offerings. We advise public and private institutions on a wide variety of situations, including buy-side and sell-side transactions, as well as leveraged loans, private mezzanine debt, high-yield debt, initial public offerings, follow-ons, convertibles, equity private placements, private equity, and liability management transactions, and advise financial sponsors on all types of transactions. The majority of our Corporate Finance revenues consists of fees paid upon the successful completion of the transaction or engagement ("Completion Fees"). A Corporate Finance transaction can fail to be completed for many reasons that are outside of our control. In these instances, our fees are generally limited to the fees paid at the time an engagement letter is signed ("Retainer Fees") and in some cases fees paid during the course of the engagement ("Progress Fees") that may have been received.
- Financial Restructuring provides advice to debtors, creditors and other parties-in-interest in connection with recapitalization/deleveraging transactions implemented both through bankruptcy proceedings and through out-of-court exchanges, consent solicitations or other mechanisms, as well as in distressed mergers and acquisitions and capital markets activities. As part of these engagements, our Financial Restructuring business segment offers a wide range of advisory services to our clients, including: the structuring, negotiation, and confirmation of plans of reorganization; structuring and analysis of exchange offers; corporate viability assessment; dispute resolution and expert testimony; and procuring debtor-in-possession financing. Although atypical, a Financial Restructuring transaction can fail to be completed for many reasons that are outside of our control. In these instances, our fees are generally limited to the initial Retainer Fees and/or Progress Fees.

HOULIHAN LOKEY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)

(All tables and balances are in thousands, except share data or otherwise stated)

- Financial Advisory Services primarily provides valuations of various assets, including: companies; illiquid debt and equity securities; and intellectual property (among other assets and liabilities). These valuations are used for financial reporting, tax reporting, and other purposes. In addition, our Financial Advisory Services business segment renders fairness opinions in connection with mergers and acquisitions and other transactions, and solvency opinions in connection with corporate spin-offs and dividend recapitalizations, and other types of financial opinions in connection with other transactions. Also, our Financial Advisory Services business segment provides dispute resolution services to clients where fees are usually based on the hourly rates of our financial professionals. Lastly, our Financial Advisory Services business segment provides strategic consulting services to clients where fees are either fixed or based on the hourly rates of our consulting professionals. Unlike our Corporate Finance or Financial Restructuring segments, the fees generated in our Financial Advisory Services segment are generally not contingent on the successful completion of a transaction.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") and pursuant to the rules and regulations of the United States Securities and Exchange Commission (the "SEC") and include all information and footnotes required for consolidated financial statement presentation. The results of operations for the six months ended September 30, 2018 are not necessarily indicative of the results of operations to be expected for the year ending March 31, 2019. The unaudited interim consolidated financial statements and notes to consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended March 31, 2018.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries where it has a controlling financial interest. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company carries its investments in unconsolidated entities over which it has significant influence but does not control using the equity method, and includes its ownership share of the income and losses in other (income) expenses, net in the consolidated statements of comprehensive income.

(c) Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements. Management estimates and assumptions also affect the reported amounts of revenues and expenses during the reporting period, and disclosure of contingent assets and liabilities at the reporting date. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Items subject to such estimates and assumptions include: the allowance for doubtful accounts; the valuation of deferred tax assets, goodwill, accrued expenses, and share based compensation; the allocation of goodwill and other assets across the reporting units (segments); and reserves for income tax uncertainties and other contingencies.

(d) Recognition of Revenue

Revenues consist of fee revenues from advisory services and reimbursed costs incurred in fulfilling the contract. Revenues reflect revenues from our Corporate Finance ("CF"), Financial Restructuring ("FR"), and Financial Advisory Services ("FAS") business segments.

Revenues for all three business segments are recognized upon satisfaction of the performance obligation and may be satisfied over time or at a point in time. The amount and timing of the fees paid vary by the type of engagement.

HOULIHAN LOKEY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)

(All tables and balances are in thousands, except share data or otherwise stated)

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted the standard effective April 1, 2018 and under the new standard, we recognize revenue from contracts with customers upon satisfaction of our performance obligations by transferring the promised services to the customers. A service is transferred to a customer when, the customer obtains control of and derives benefit from that service. Revenue from a performance obligation satisfied over time is recognized by measuring our progress in satisfying the performance obligation in a manner that depicts the transfer of the services to the customer.

The amount of revenue recognized reflects the consideration we expect to be entitled to in exchange for those promised services (i.e., the "transaction price"). In determining the transaction price, we consider multiple factors, including the effects of variable consideration. Variable consideration is included in the transaction price only to the extent it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainties with respect to the amount are resolved. In determining when to include variable consideration in the transaction price, we consider the range of possible outcomes, the predictive value of our past experiences, the time period of when uncertainties expect to be resolved and the amount of consideration that is susceptible to factors outside of our influence, such as market volatility or the judgment and actions of third parties. The substantial majority of the Company's advisory fee (i.e., the success related Completion Fees) are considered variable and constrained as they are contingent upon a future event which includes factors outside of our control (e.g., completion of a transaction or third party emergence from bankruptcy or approval by the court).

Revenues from Corporate Finance engagements primarily consist of fees generated in connection with advisory services related to corporate finance, mergers and acquisitions and capital markets offerings. Advisory fees from these engagements are recognized at a point in time when the related transaction has been effectively closed. At that time, the Company has transferred control of the promised service and the customer obtains control. Corporate Finance contracts generally contain a variety of promised services that may be capable of being distinct, but they are not distinct within the context of the contract as the various services are inputs to the combined output of successfully brokering a specific transaction. Effective April 1, 2018, fees received prior to the completion of the transaction including Retainer Fees and Progress Fees are deferred within deferred income on the consolidated balance sheet and not recognized until the performance obligation is satisfied, or when the transaction is deemed by management to be terminated. Management's judgment is required in determining when a transaction is considered to be terminated. Prior to April 1, 2018, the timing of the recognition of these various fees were generally recognized on a monthly basis, except in situations where there is uncertainty as to the timing of collection of the amount due. Progress Fees were recognized based on management's estimates of the relative proportion of services provided through the financial reporting date to the total services required to be performed.

Revenues from Financial Restructuring engagements primarily consist of fees generated in connection with advisory services to debtors, creditors and other parties-in-interest involving recapitalization or deleveraging transactions implemented both through bankruptcy proceedings and through out-of-court exchanges, consent solicitations or other mechanisms, as well as in distressed mergers and acquisitions and capital markets activities. Retainer Fees and Progress Fees from restructuring engagements are recognized over time using a time elapsed measure of progress as our clients simultaneously receive and consume the benefits of those services as they are provided. Completion Fees from these engagements are recognized at a point in time when the related transaction has been effectively closed. At that time, the Company has transferred control of the promised service and the customer obtains control.

Revenues from Financial Advisory Services engagements primarily consist of fees generated in connection with valuation services and rendering fairness, solvency and financial opinions. Revenues are recognized at a point in time as these engagements include a singular objective that does not transfer any notable value to the Company's clients until the opinions have been rendered and delivered to the client. However, certain engagements consists of advisory services where fees are usually based on the hourly rates of our financial professionals. Such revenues are recognized over time as the benefits of these advisory services are transferred to the Company's clients throughout the course of the engagement and as a practical expedient, the Company has elected to use the 'as-invoiced' approach to recognize revenue.

HOULIHAN LOKEY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)

(All tables and balances are in thousands, except share data or otherwise stated)

Taxes, including value added taxes, collected from customers and remitted to governmental authorities are accounted for on a net basis, and therefore, are excluded from revenue in the consolidated statements of comprehensive income.

(e) Operating Expenses

The majority of the Company's operating expenses are related to compensation for employees, which includes the amortization of the relevant portion of the Company's share-based incentive plans (note 14). Other examples of operating expenses include: travel, meals and entertainment; rent; depreciation and amortization; information technology and communications; professional fees; and other operating expenses, which include such items as office expenses, business license and registration fees, provision for bad debts, non-income-related taxes, legal expenses, related-party support services, and charitable contributions.

(f) Translation of Foreign Currency Transactions

The reporting currency for the consolidated financial statements of the Company is the U.S. dollar. The assets and liabilities of subsidiaries whose functional currency is other than the U.S. dollar are included in the consolidation by translating the assets and liabilities at the reporting period-end exchange rates; however, revenues and expenses are translated using the applicable exchange rates determined on a monthly basis throughout the year. Resulting translation adjustments are reported as a separate component of accumulated other comprehensive loss, net of applicable taxes.

From time to time, we enter into transactions to hedge our exposure to certain foreign currency fluctuations through the use of derivative instruments or other methods. In September 2018, we entered into foreign currency forward contracts between the euro and pound sterling with an aggregate notional value of approximately EUR 10.4 million and with a fair value representing a loss included in other operating expenses of \$14 during the three months ended September 30, 2018. In September 2017, we entered into a foreign currency forward contract between the euro and pound sterling with an aggregate notional value of approximately EUR 3.5 million and with a fair value representing a gain included in other operating expenses of \$139 during the three months ended September 30, 2017.

(g) Property and Equipment

Property and equipment are stated at cost. Repair and maintenance charges are expensed as incurred and costs of renewals or improvements are capitalized at cost.

Depreciation on furniture and office equipment is provided on a straight-line basis over the estimated useful lives of the respective assets. Leasehold improvements are depreciated over the lesser of the lease term or estimated useful life.

(h) Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents include cash held at banks and highly liquid investments with original maturities of three months or less. As of September 30, 2018 and March 31, 2018, the Company had cash balances with banks in excess of insured limits. The Company has not experienced any losses in its cash accounts and believes it is not exposed to any significant credit risk with respect to cash and cash equivalents.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows: Restricted Cash*. The amendments in this ASU require restricted cash and restricted cash equivalents to be included with the cash and cash equivalents balances when reconciling the beginning-of-period and end-of-period amounts shown on the statements of cash flows. ASU 2016-18 is effective for interim and annual reporting periods beginning after December 15, 2017 (fiscal year ending March 31, 2019 for the Company) with early adoption permitted. The Company adopted ASU No. 2016-18 and it did not have a material impact on the Company's operating results and financial position.

HOULIHAN LOKEY, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (unaudited)****(All tables and balances are in thousands, except share data or otherwise stated)**

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows.

| | September 30, 2018 | September 30, 2017 |
|--|---------------------------|---------------------------|
| Cash and cash equivalents | \$ 227,599 | \$ 245,356 |
| Restricted cash | 366 | — |
| Total cash, cash equivalents, and restricted cash shown in the statement of cash flows | <u>\$ 227,965</u> | <u>\$ 245,356</u> |

Restricted cash at September 30, 2018 represented a deposit in support of a letter of credit issued for our Frankfurt office.

(i) Investment Securities

Investment securities consist of corporate debt, U.S. Treasury, and certificates of deposit with original maturities over 90 days. The Company classifies its investment securities as held to maturity which are recorded at amortized cost based on the Company's positive intent and ability to hold these securities to maturity. Management evaluates whether securities held to maturity are other-than-temporarily impaired on a quarterly basis.

(j) Accounts Receivable

The allowance for doubtful accounts on receivables reflects management's best estimate of probable inherent losses determined principally on the basis of historical experience and review of uncollected revenues and is recorded through provision for bad debts which is included in other operating expenses, net in the accompanying consolidated statements of comprehensive income. Amounts deemed to be uncollectible are written off against the allowance for doubtful accounts.

(k) Income Taxes

Prior to the IPO, ORIX USA and its subsidiaries, including the Company, filed consolidated federal income tax returns and separate returns in state and local jurisdictions and did so for fiscal 2016 through the date of the IPO. The Company reported income tax expense as if it filed separate returns in all jurisdictions. Following the IPO, the Company files a consolidated federal income tax return separate from ORIX USA, as well as consolidated and separate returns in state and local jurisdictions, and the Company reports income tax expense on this basis.

We account for income taxes in accordance with Accounting Standards Codification 740 ("ASC 740"), "Income Taxes," which requires the recognition of tax benefits or expenses on temporary differences between the financial reporting and tax basis of our assets and liabilities. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. The measurement of the deferred items is based on enacted tax laws and applicable tax rates. A valuation allowance related to a deferred tax asset is recorded if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

The Company utilized a comprehensive model to recognize, measure, present, and disclose in its financial statements any uncertain tax positions that have been taken or are expected to be taken on a tax return. The impact of an uncertain tax position that is more likely than not of being sustained upon audit by the relevant taxing authority must be recognized at the largest amount that is more likely than not to be sustained. No portion of an uncertain tax position will be recognized if the position has less than a 50% likelihood of being sustained. Interest expense and penalties related to income taxes are included in the provision for income taxes in the accompanying consolidated statements of comprehensive income.

HOULIHAN LOKEY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)

(All tables and balances are in thousands, except share data or otherwise stated)

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”), which provides guidance on accounting for the tax effects of the Tax Cuts and Jobs Act (the “Tax Act”). SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company’s accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

The Tax Act’s one-time deemed repatriation transition tax (the “Toll Charge”) on certain un-repatriated earnings of non-U.S. subsidiaries is a tax on previously untaxed accumulated and current earnings and profits of certain of the Company’s non-U.S. subsidiaries. To determine the amount of the Toll Charge, the Company must determine, in addition to other factors, the amount of post-1986 earnings and profits of the relevant subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings. During fiscal 2018, the Company was able to make a reasonable estimate of the Toll Charge and recorded a provisional Toll Charge obligation of \$2,480; however, the Company continues to evaluate additional information in order to better estimate the Toll Charge obligation. The Global Intangible Low-Taxed Income tax (the “GILTI inclusion”) can be recognized in the financial statements through an accounting policy election by either recording a period cost (permanent item) or providing deferred income taxes stemming from certain basis differences that are expected to result in the GILTI inclusion. The Company has elected to account for the tax impacts of the GILTI inclusion as a period cost. Additionally, the permanently reinvested amounts attributable to the Company’s non-U.S. subsidiaries are considered provisional under SAB 118.

(l) Goodwill and Intangible Assets

Goodwill represents an acquired company’s acquisition cost over the fair value of acquired net tangible and intangible assets. Goodwill is the net asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Intangible assets identified and accounted for include tradenames and marks, backlog, developed technologies, and customer relationships. Those intangible assets with finite lives, including backlog and customer relationships, are amortized over their estimated useful lives.

When HL CA was acquired by Fram in January 2006, approximately \$392,600 of goodwill and \$192,210 of indefinite-lived intangible assets were generated and recognized. In accordance with ASC Topic 805, *Business Combinations*, since HL CA was wholly owned by Fram, this goodwill and all other purchase accounting-related adjustments were pushed down to the Company’s reporting level. Through both foreign and domestic acquisitions made directly by HL CA and the Company since 2006, additional goodwill of approximately \$203,790, inclusive of foreign currency translations, has been recognized.

Goodwill is reviewed annually for impairment and more frequently if potential impairment indicators exist. Goodwill is reviewed for impairment in accordance with Accounting Standards Update (ASU) No. 2011-08, *Testing Goodwill for Impairment*, which permits management to make a qualitative assessment of whether it is more likely than not that one of its reporting unit’s fair value is less than its carrying amount before applying the two-step goodwill impairment test. If management concludes that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then management would not be required to perform the two-step impairment test for that reporting unit. If the assessment indicates that it is more likely than not that the reporting unit’s fair value is less than its carrying value, management must test further for impairment utilizing a two-step process. Step 1 compares the estimated fair value of the reporting unit with its carrying value, including goodwill. If the carrying value of the reporting unit exceeds the estimated fair value, an impairment exists and is measured in Step 2 as the excess of the recorded amount of goodwill over the implied fair value of goodwill resulting from the valuation of the reporting unit. Impairment testing of goodwill requires a significant amount of judgment in assessing qualitative factors and estimating the fair value of the reporting unit, if necessary. The fair value is determined using an estimated market value approach, which considers estimates of future after tax cash flows, including a terminal value based on market earnings multiples, discounted at an appropriate market rate. As of September 30, 2018, management concluded that it was not more likely than not that the Company’s reporting units’ fair value was less than their carrying amount and no further impairment testing had been considered necessary.

HOULIHAN LOKEY, INC. AND SUBSIDIARIES

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(All tables and balances are in thousands, except share data or otherwise stated)

Indefinite-lived intangible assets are reviewed annually for impairment in accordance with ASU 2012-02, *Testing Indefinite-lived Intangible Assets for Impairment*, which provides management the option to perform a qualitative assessment. If it is more likely than not that the asset is impaired, the amount that the carrying value exceeds the fair value is recorded as an impairment expense. As of September 30, 2018, management concluded that it was not more likely than not that the fair values were less than the carrying values.

Intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group (inclusive of other long-lived assets) be tested for possible impairment, management first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying amount. If the carrying amount of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying amount exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. As of September 30, 2018, no events or changes in circumstances were identified that indicated that the carrying amount of the finite-lived intangible assets were not recoverable.

(m) Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should also disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers, Deferral of Effective Date* which deferred the effective date of the new standard to annual and interim periods within that reporting period beginning after December 15, 2017 (fiscal year ending March 31, 2019 for the Company). The Company adopted the standard effective April 1, 2018 using the modified retrospective method which requires the recognition of a cumulative-effect adjustment as of that date. Results for periods beginning after March 31, 2018 are presented under the new revenue and cost recognition guidance, while prior period amounts were not restated and continue to be reported in accordance with the Company's previous revenue and cost recognition policies. The Company applied the new standard to contracts that have not yet been completed as of the adoption date. The Company's adoption efforts included the identification of revenue within the scope of the standard and the evaluation of revenue contracts.

Upon adoption, the Company recorded a cumulative effect adjustment that resulted in a reduction in retained earnings of \$19.7 million, a reduction in deferred tax liabilities of \$7.4 million and an increase to deferred income of \$24.4 million. This cumulative adjustment was related to certain engagements for which revenue was being recognized over time prior to adoption which are now recognized point-in-time under the new standard. See notes 2(d) and 3 for further information.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The amendments in this ASU requires lessees to recognize right-of-use assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize a right-of-use asset and lease liability. Additionally, when measuring assets and liabilities arising from a lease, optional payments should be included only if the lessee is reasonably certain to exercise an option to extend the lease, exercise a purchase option, or not exercise an option to terminate the lease. ASU 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018 (year ending March 31, 2020 for the Company). Early application is permitted. The Company is currently in the process of determining the impact that the updated accounting guidance will have on our consolidated financial statements. See note 16 for a summary of our undiscounted minimum rental commitments under operating leases as of September 30, 2018.

HOULIHAN LOKEY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)

(All tables and balances are in thousands, except share data or otherwise stated)

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments*. The amendments in this ASU include eight specific guidance measures for cash flow classification issues for (1) debt prepayment or debt extinguishment costs, (2) debt instruments with coupon interest rates, (3) contingent consideration payments made after a business combination, (4) settlement proceeds from insurance claims, (5) settlement proceeds from corporate-owned life insurance policies, (6) distributions received from equity method investees, (7) beneficial interests in securitization transactions, and (8) classification of cash receipts and payments that have aspects of more than one class of cash flows. ASU 2016-15 is effective for interim and annual reporting periods beginning after December 15, 2017 (fiscal year ending March 31, 2019 for the Company). Application of this guidance resulted in some changes in classification in the consolidated statements of cash flows, but did not have a material impact on our consolidated financial position or results of operations.

In January 2017, the FASB issued ASU No. 2017-04, *Intangible - Goodwill and Other: Simplifying the Test for Goodwill Impairment*. The amendments in this ASU do not change the guidance on Step 1 of the goodwill impairment test but eliminates the requirement to calculate an implied goodwill value using Step 2. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value but should not exceed the total amount of goodwill allocated to that reporting unit. Also, an entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. ASU No. 2017-04 is effective for interim and annual reporting periods beginning after December 15, 2019 (fiscal year ending March 31, 2021 for the Company) with early adoption permitted. The Company adopted guidance effective April 1, 2018 and its application did not have a material impact on the consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-01 *Business Combinations (Topic 805): Clarifying the Definition of a Business*. The clarified guidance provides a more defined framework to use in determining when a set of assets and activities constitute a business. The clarified definition was effective for the Company on April 1, 2018 and was applied on a prospective basis. Application of this guidance did not have an effect on the consolidated financial statements and related disclosures.

In May 2017, the FASB issued ASU 2017-09 *Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting* which clarifies when changes to the terms or conditions of share-based payment awards require an entity to apply modification accounting. The amended guidance states an entity should account for the effects of a modification unless certain criteria are met which include that the modified award has the same fair value, vesting conditions and classification as the original award. The guidance is first effective for our fiscal year beginning April 1, 2019 on a prospective basis; however, early adoption is permitted. Given that this guidance applies to specific transactions and would only become relevant in certain circumstances, we are unable to estimate the impact, if any, this new guidance may have on our financial position.

(n) Reclassifications

Certain reclassifications have been made to conform the prior period consolidated financial statements and notes to the current period presentation.

(3) REVENUE RECOGNITION

The Company adopted the new revenue recognition standard effective April 1, 2018 which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company is using the modified retrospective method that results in the Company prospectively changing the presentation of reimbursements of certain out-of-pocket expenses from a net presentation within non-compensation expenses to a gross basis in revenues. This resulted in an increase in both revenues and related out-of-pocket expenses of approximately \$5.2 million and \$16.3 million for the three and six months ended September 30, 2018, respectively, with no impact to net income.

HOULIHAN LOKEY, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (unaudited)****(All tables and balances are in thousands, except share data or otherwise stated)**

The following table summarizes the effects of adopting the new revenue recognition standard on the Company's consolidated statements of comprehensive income for the three and six months ended September 30, 2018.

| | Three Months Ended September 30, 2018 | | |
|---|--|--|--------------------|
| | As reported | Excluding adoption of ASC 606 | Adjustments |
| | \$ | \$ | \$ |
| Revenues | 274,992 | 269,363 | 5,629 |
| Operating expenses: | | | |
| Employee compensation and benefits | 175,321 | 175,312 | 9 |
| Travel, meals, and entertainment | 10,111 | 8,142 | 1,969 |
| Rent | 10,437 | 10,437 | — |
| Depreciation and amortization | 3,706 | 3,706 | — |
| Information technology and communications | 4,709 | 4,517 | 192 |
| Professional fees | 5,784 | 5,154 | 630 |
| Other operating expenses | 8,749 | 6,321 | 2,428 |
| Total operating expenses | 218,817 | 213,589 | 5,228 |
| Income before provision for income taxes | 57,182 | 56,780 | 402 |
| Provision for income taxes | 17,063 | 16,946 | 117 |
| Net income | \$ 40,119 | \$ 39,834 | \$ 285 |

| | Six Months Ended September 30, 2018 | | |
|---|--|--|--------------------|
| | As reported | Excluding adoption of ASC 606 | Adjustments |
| | \$ | \$ | \$ |
| Revenues | 494,994 | 478,744 | 16,250 |
| Operating expenses: | | | |
| Employee compensation and benefits | 314,501 | 314,476 | 25 |
| Travel, meals, and entertainment | 19,697 | 13,146 | 6,551 |
| Rent | 18,625 | 18,625 | — |
| Depreciation and amortization | 7,174 | 7,174 | — |
| Information technology and communications | 10,298 | 9,812 | 486 |
| Professional fees | 12,061 | 9,982 | 2,079 |
| Other operating expenses | 16,333 | 9,138 | 7,195 |
| Total operating expenses | 398,689 | 382,353 | 16,336 |
| Income before provision for income taxes | 98,918 | 99,004 | (86) |
| Provision for income taxes | 29,115 | 29,140 | (25) |
| Net income | \$ 69,803 | \$ 69,864 | \$ (61) |

Disaggregation of Revenue

The Company disaggregates revenue based on its business segment and geographical area results and believes that the same information provides a reasonable representation of how performance obligations relate to the nature, amount, timing and uncertainty of revenue and cash flows. See note 17.

Contract Balances

The timing of revenue recognition may differ from the timing of payment by customers. The Company records a receivable when revenue is recognized prior to payment and there is an unconditional right to payment. Alternatively, when payment precedes the provision of the related services, the Company records deferred income (contract liability) until the performance obligations are satisfied.

HOULIHAN LOKEY, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (unaudited)****(All tables and balances are in thousands, except share data or otherwise stated)**

Costs incurred in fulfilling advisory contracts with point-in-time revenue recognition are recorded as a contract asset when the costs (i) relate directly to a contract, (ii) generate or enhance resources of the Company that will be used in satisfying performance obligations, and (iii) are expected to be recovered. The Company amortizes the contract asset costs related to fulfilling a contract based on recognition of fee revenue for the corresponding contract. As the Company is prospectively changing the presentation of costs incurred in fulfilling advisory contracts from a net presentation within non-compensation expenses to a gross basis in revenues, the Company records a contract liability for the reimbursable costs incurred until the fee revenue is recognized.

Costs incurred in fulfilling an advisory contract with over-time revenue recognition are expensed as incurred.

The change in the Company's contract assets and liabilities during the period primarily reflects the timing difference between the Company's performance and the customer's payment. The following table provides information about receivables, contract assets, and contract liabilities from contracts with customers:

| | Balance as of April 1, 2018 ⁽³⁾ | Decrease | Balance as of September 30, 2018 |
|-------------------------------------|---|-------------|-------------------------------------|
| Receivables ⁽¹⁾ | \$ 77,259 | \$ (13,701) | \$ 63,558 |
| Contract Assets ⁽¹⁾ | \$ 4,675 | \$ (2,223) | \$ 2,452 |
| Contract Liabilities ⁽²⁾ | \$ 31,811 | \$ (865) | \$ 30,946 |

(1) Included in Accounts receivable on the Consolidated Balance Sheets

(2) Deferred income on the Consolidated Balance Sheets

(3) See note 2 (n)

As a practical expedient, the Company does not disclose information about remaining performance obligations pertaining to (i) contracts that have an original expected duration of one year or less and/or (ii) contracts where the variable consideration is allocated entirely to a wholly unsatisfied promise to transfer a distinct service that is or forms part of a single performance obligation. The transaction price allocated to remaining unsatisfied or partially unsatisfied performance obligations with an original expected duration exceeding one year was not material at September 30, 2018.

(4) RELATED PARTY TRANSACTIONS

The Company provides financial advisory services to ORIX USA and its affiliates and certain other related parties, and received fees for these services totaling approximately \$6,147 and \$2,443 during the three months ended September 30, 2018 and 2017, respectively, and \$8,495 and \$2,806 during the six months ended September 30, 2018 and 2017, respectively.

The Company provides certain management and administrative services for the Company's unconsolidated entities and receives fees for these services. These fees are offset with the compensation costs related to the administrative staffs. As a result, the Company received net fees of \$224 and incurred expenses of \$(38) during the three months ended September 30, 2018 and 2017, respectively, and received net fees of \$224 and \$134 during the six months ended September 30, 2018 and 2017, respectively.

In November 2015, the Company entered into a joint venture arrangement with Leonardo & Co. NV, a European-based investment banking firm ("Leonardo"), in relation to Leonardo's Italian business by means of acquisition of a minority (49%) interest. In conjunction with this transaction, a subsidiary of the Company loaned the joint venture EUR 5,500 (\$6,083 and \$6,034 as of September 30, 2018 and March 31, 2018, respectively) which is included in receivables from affiliates and which bears interest at 1.5% and matures no later than November 2025. Interest income earned by the Company related to this receivable from affiliate was approximately \$24 and \$25 for the three months ended September 30, 2018 and 2017, respectively, and \$48 for each of the six months ended September 30, 2018 and 2017. Included in receivables from affiliates is also reimbursable third party costs incurred on behalf of Leonardo totaling approximately \$1,787 and \$2,698 as of September 30, 2018 and March 31, 2018, respectively.

HOULIHAN LOKEY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)

(All tables and balances are in thousands, except share data or otherwise stated)

As described in note 1 above, in connection with, and prior to, the February 2017 Follow-on Offering, on February 6, 2017, the Company entered into the February 2017 Forward Share Purchase Agreement, pursuant to which the Company agreed to repurchase from ORIX USA on April 5, 2017 the number of shares of our Class B common stock equal to the number of shares of our Class A common stock sold by the Company in the February 2017 Follow-on Offering (including any shares sold upon the exercise by the underwriters of their option to purchase additional shares of our Class A common stock) for a purchase price per share equal to the public offering price in the February 2017 Follow-on Offering less underwriting discounts and commissions. On April 5, 2017, the Company settled the transaction provided for in the February 2017 Forward Share Purchase Agreement and acquired 6,900,000 shares of Class B common stock from ORIX USA using the net proceeds we received from the February 2017 Follow-on Offering and the shares were retired. In accordance with the terms of the February 2017 Forward Share Purchase Agreement, the purchase price per share under the February 2017 Forward Share Purchase Agreement was reduced by the per share amount of the dividend paid to ORIX USA on the shares of our Class B common stock subject to the February 2017 Forward Share Purchase Agreement prior to the settlement of the transaction.

In July 2017, the Company purchased the remaining interest of Houlihan Lokey (Australia) Pty Limited ("HL Australia"), which was historically operating as our joint venture in Australia. As part of the consideration paid, a loan receivable from certain principals of the joint venture was forgiven. In addition, as a result of the acquisition we eliminated from our consolidated financial statements as of September 30, 2018 a loan agreement entered into with HL Australia in February 2017 for AUD 2,500 (\$2,001 as of July 31, 2017) which bore interest at 2.0% and was previously included in receivables from affiliates. Interest income earned by the Company related to this receivable from affiliate was approximately \$0 for both three and six months ended September 30, 2018, and \$4 and \$13 for the three and six months ended September 30, 2017.

In connection with, and prior to, the March 2018 Follow-on Offering, on January 26, 2018, the Company entered into the January 2018 Forward Share Purchase Agreement, pursuant to which the Company agreed to repurchase from ORIX USA on April 5, 2018 the number of shares of our Class B common stock equal to the number of shares of our Class A common stock sold by the Company in the March 2018 Follow-on Offering for a purchase price per share equal to the public offering price in the March 2018 Follow-on Offering less underwriting discounts and commissions. On April 5, 2018, the Company settled the transaction provided for in the January 2018 Forward Share Purchase Agreement and acquired 2,000,000 shares of Class B common stock from ORIX USA using the net proceeds we received from the March 2018 Follow-on Offering and the shares were retired. In accordance with the terms of the January 2018 Forward Share Purchase Agreement, the purchase price per share under the January 2018 Forward Share Purchase Agreement was reduced by the per share amount of the dividend paid to ORIX USA on the shares of our Class B common stock subject to the January 2018 Forward Share Purchase Agreement prior to the settlement of the transaction.

As described in note 1 above, on June 4, 2018, pursuant to the June 2018 Follow-on Offering, ORIX USA sold 1,985,983 shares of our Class A common stock and certain of our former and current employees and members of our management sold 1,014,017 shares, in each case, at a price to the public of \$49.15 per share. Concurrently with the closing of the offering, the Company repurchased from ORIX USA 697,000 shares of Class A Common Stock at a purchase price per share of \$49.11.

In the accompanying consolidated balance sheet, the Company carried accounts receivable and unbilled work in progress from related parties totaling approximately \$523 and \$21 as of September 30, 2018 and March 31, 2018, respectively. The Company also deferred income from related parties for service fees totaling \$25 as of each of September 30, 2018 and March 31, 2018.

Other assets in the accompanying consolidated balance sheets includes loans receivable from certain employees of \$13,090 and \$7,489 as of September 30, 2018, and March 31, 2018, respectively.

HOULIHAN LOKEY, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (unaudited)****(All tables and balances are in thousands, except share data or otherwise stated)****(5) FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS**

The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels in accordance with ASC Topic 820, *Fair Value Measurement*:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

For level 3 investments in which pricing inputs are unobservable and limited market activity exists, management's determination of fair value is based on the best information available, may incorporate management's own assumptions and involves a significant degree of judgment.

The following methods and assumptions were used by the Company in estimating fair value disclosures:

Certificates of deposit: Fair values for certificates of deposit are based upon a discounted cash flow approach.

Corporate debt securities: All fair value measurements are obtained from a third-party pricing service and are not adjusted by management.

U.S. Treasury Securities: Fair values for U.S. treasury securities are based on quoted prices from recent trading activity of identical or similar securities. All fair value measurements are obtained from a third-party pricing service and are not adjusted by management.

The following table presents information about the Company's financial assets, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair values:

| | September 30, 2018 | | | |
|---|---------------------------|------------------|------------------|------------------|
| | Level I | Level II | Level III | Total |
| Corporate debt securities | \$ — | \$ 22,098 | \$ — | \$ 22,098 |
| U.S. Treasury Securities | — | 4,462 | — | 4,462 |
| Total asset measured at fair value | \$ — | \$ 26,560 | \$ — | \$ 26,560 |

| | March 31, 2018 | | | |
|---|-----------------------|-------------------|------------------|-------------------|
| | Level I | Level II | Level III | Total |
| Certificates of deposit | \$ — | \$ 10,106 | \$ — | \$ 10,106 |
| Corporate debt securities | — | 183,578 | — | 183,578 |
| U.S. Treasury Securities | — | 15,582 | — | 15,582 |
| Total asset measured at fair value | \$ — | \$ 209,266 | \$ — | \$ 209,266 |

HOULIHAN LOKEY, INC. AND SUBSIDIARIES

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

The Company had no transfers between fair value levels during the six months ended September 30, 2018.

The fair values of the financial instruments represent the amounts that would be received to sell assets or that would be paid to transfer liabilities in an orderly transaction between market participants as of a specified date. Fair value measurements maximize the use of observable inputs; however, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Company's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Company based on the best information available in the circumstances, including expected cash flows and appropriately risk-adjusted discount rates, as well as available observable and unobservable inputs.

The carrying value of cash and cash equivalents, restricted cash, accounts receivable, unbilled work in process, receivables from affiliates, accounts payable, and deferred income approximates fair value due to the short maturity of these instruments.

The carrying value of the loans to employees included in other assets, loan payable to affiliate, loans payable to former shareholders and an unsecured loan which is included in loan payable to non-affiliates, approximates fair value due to the variable interest rate borne by those instruments.

(6) INVESTMENT SECURITIES

The amortized cost, gross unrealized gains (losses), and fair value of securities held to maturity were as follows:

| | September 30, 2018 | | | |
|---|---------------------------|-------------------------------|----------------------------------|-------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Fair Value |
| Corporate debt securities | \$ 22,114 | \$ 5 | \$ (21) | \$ 22,098 |
| U.S. Treasury Securities | \$ 4,451 | \$ 11 | \$ — | \$ 4,462 |
| Total securities with unrealized gains | \$ 26,565 | \$ 16 | \$ (21) | \$ 26,560 |

| | March 31, 2018 | | | |
|---|-----------------------|-------------------------------|----------------------------------|-------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Fair Value |
| Corporate debt securities | \$ 183,632 | \$ 13 | \$ (67) | \$ 183,578 |
| Certificate of deposit | 10,106 | — | — | 10,106 |
| U.S. Treasury Securities | 15,581 | 11 | (10) | 15,582 |
| Total securities with unrealized gains | \$ 209,319 | \$ 24 | \$ (77) | \$ 209,266 |

Scheduled maturities of the Company's debt securities within the investment securities portfolio were as follows:

| | September 30, 2018 | | March 31, 2018 | |
|--|---------------------------|-----------------------------|-----------------------|-----------------------------|
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Due within one year | \$ 16,057 | \$ 16,066 | \$ 209,319 | \$ 209,266 |
| Due within one year through five years | 10,508 | 10,494 | — | — |
| Total debt within the investment securities portfolio | \$ 26,565 | \$ 26,560 | \$ 209,319 | \$ 209,266 |

The Company has the ability and intent to hold the corporate debt securities to maturity until a recovery of fair value is equal to an amount approximating its amortized cost, which may be at maturity, and has not incurred credit losses on such debt securities. The Company does not consider such unrealized loss positions to be other-than-temporarily impaired as of September 30, 2018.

(7) ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS RECEIVABLE

| | Three Months Ended September 30, | | Six Months Ended September 30, | |
|--|---|-------------|---------------------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |

| | | | | |
|--|------------------|-----------------|------------------|-----------------|
| Balance-Beginning | \$ 11,027 | \$ 11,834 | \$ 11,391 | \$ 11,199 |
| Provision for bad debt | 229 | 365 | 613 | 979 |
| (Write-off) recovery of uncollectible accounts | 245 | (2,414) | (503) | (2,393) |
| Balance-Ending | <u>\$ 11,501</u> | <u>\$ 9,785</u> | <u>\$ 11,501</u> | <u>\$ 9,785</u> |

(8) PROPERTY AND EQUIPMENT

Property and equipment, net of accumulated depreciation consist of the following:

| | Useful Lives | September 30, 2018 | March 31, 2018 |
|-------------------------------|--------------|--------------------|------------------|
| Equipment | 5 Years | \$ 7,681 | \$ 6,653 |
| Furniture and fixtures | 5 Years | 19,246 | 19,189 |
| Leasehold improvements | 10 Years | 32,957 | 31,916 |
| Computers and software | 3 Years | 11,644 | 10,346 |
| Other | N/A | 1,116 | 1,120 |
| Total cost | | 72,644 | 69,224 |
| Less accumulated depreciation | | (40,945) | (37,078) |
| Total net book value | | <u>\$ 31,699</u> | <u>\$ 32,146</u> |

Additions to property and equipment during the six months ended September 30, 2018 were primarily related to costs incurred to furnish new leased office space and refurbish existing space.

Depreciation expense of approximately \$2,117 and \$1,542 was recognized during the three months ended September 30, 2018 and 2017, respectively, and \$4,264 and \$3,068 was recognized during the six months ended September 30, 2018 and 2017, respectively.

(9) GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangibles consist of the following.

| | Useful Lives | September 30, 2018 | March 31, 2018 |
|-------------------------------------|--------------|--------------------|-------------------|
| Goodwill | Indefinite | \$ 596,390 | \$ 528,889 |
| Tradename-Houlihan Lokey | Indefinite | 192,210 | 192,210 |
| Other intangible assets | Varies | 18,603 | 15,464 |
| Total cost | | 807,203 | 736,563 |
| Less accumulated amortization | | (7,881) | (13,253) |
| Total net book value (before taxes) | | <u>\$ 799,322</u> | <u>\$ 723,310</u> |
| Deferred tax liability | | (50,855) | (50,541) |
| Total net book value | | <u>\$ 748,467</u> | <u>\$ 672,769</u> |

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Goodwill attributable to the Company's business segments are as follows:

| <u>Business Segments</u> | <u>April 1, 2018</u> | <u>Changes ^(a)</u> | <u>September 30, 2018</u> |
|-----------------------------|----------------------|-------------------------------|---------------------------|
| Corporate Finance | \$ 273,812 | \$ 68,059 | \$ 341,871 |
| Financial Restructuring | 163,362 | (558) | 162,804 |
| Financial Advisory Services | 91,715 | — | 91,715 |
| Total | <u>\$ 528,889</u> | <u>\$ 67,501</u> | <u>\$ 596,390</u> |

(a) Changes were related to the acquisitions and foreign currency translation adjustments.

Amortization expense of approximately \$1,589 and \$633 was recognized for the three months ended September 30, 2018 and 2017, respectively, and \$2,910 and \$1,081 was recognized for the six months ended September 30, 2018 and 2017, respectively. The estimated future amortization for amortizable intangible assets for each of the next five years are as follows:

| <u>Year Ended March 31,</u> | |
|-----------------------------|----------|
| Remainder of 2019 | \$ 3,146 |
| 2020 | 6,289 |
| 2021 | 707 |
| 2022 | 157 |
| 2023 | 7 |

(10) LOANS PAYABLE

In August 2015, prior to the IPO the Company paid a dividend to its shareholders, a portion of which was paid to ORIX USA in the form of a \$45.0 million note that bore interest at a rate of LIBOR plus 165 basis points. The loan was repaid in full in May 2017. The Company paid interest on the note of \$0 for both three months ended September 30, 2018 and 2017, and \$0 and \$62 for the six months ended September 30, 2018 and 2017, respectively.

In August 2015, the Company entered into a revolving line of credit with Bank of America, N.A., which allows for borrowings of up to \$75.0 million and originally matured in August 2017. On July 28, 2017, the Company extended the maturity date of the revolving credit facility to August 18, 2019 (or if such date is not a business day, the immediately preceding business day). The agreement governing this facility provides that borrowings bear interest at an annual rate of LIBOR plus 1.00%, commitment fees apply to unused amounts, and contains debt covenants which require that the Company maintain certain financial ratios. As of September 30, 2018, no principal was outstanding under the line of credit. The Company paid interest and unused commitment fees of \$57 for each of the three months ended September 30, 2018 and 2017, and \$114 for each of the six months ended September 30, 2018 and 2017 under the line of credit.

Prior to the IPO, Fram maintained certain loans payable to former shareholders consisting of unsecured notes payable which were transferred to the Company in conjunction with the IPO. The interest rate on the individual notes was 3.57% and 2.76% as of September 30, 2018 and 2017, respectively, and the maturity dates range from 2018 to 2027. The Company incurred interest expense on these notes of \$25 and \$34 during the three months ended September 30, 2018 and 2017, respectively, and \$50 and \$71 during the six months ended September 30, 2018 and 2017, respectively.

HOULIHAN LOKEY, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (unaudited)****(All tables and balances are in thousands, except share data or otherwise stated)**

An acquisition made in January 2015 included non-contingent consideration with a carrying value of \$226 as of each of September 30, 2018 and March 31, 2018, which is included in other liabilities in the accompanying consolidated balance sheets.

In November 2015, the Company acquired the investment banking operations of Leonardo in Germany, the Netherlands, and Spain, and made a 49% investment in Leonardo's operations in Italy. Total consideration included an unsecured loan of EUR 14.0 million payable on November 16, 2040, which is included in loan payable to non-affiliates in the accompanying consolidated balance sheets. Under certain circumstances, the note may be paid in part or in whole over a five year period in equal annual installments. This loan bears interest at an annual rate of 1.50%. In each of January 2017 and December 2017, we paid a portion of this loan in the amount of EUR 2.9 million. The Company incurred interest expense on this loan of \$37 and \$50 for the three months ended September 30, 2018 and 2017, respectively, and \$74 and \$97 for the six months ended September 30, 2018 and 2017, respectively.

An acquisition made in January 2017 included non-contingent consideration with a carrying value of \$1,950 and \$1,918 as of September 30, 2018 and March 31, 2018, respectively, which are included in other liabilities in the accompanying consolidated balance sheets.

In April 2018, the Company acquired Quayle Munro Limited. Total consideration included non-interest bearing unsecured convertible loans totaling GBP 10.5 million payable on May 31, 2022, which is included in other liabilities in the accompanying consolidated balance sheets. Under certain circumstances, the notes may be exchanged for Company stock over a three year period in equal annual installments starting on May 31, 2020. The Company incurred imputed interest expense on these notes of \$93 and \$201 for the three and six months ended September 30, 2018, respectively.

In May 2018, the Company acquired BearTooth Advisors. Total consideration included an unsecured note of \$2.8 million bearing interest at an annual rate of 2.88% and payable on May 21, 2048.

See note 16 for aggregated 5-year maturity table on loans payable.

(11) OTHER COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE LOSS

The only component of other comprehensive income relates to foreign currency translation adjustments of \$(3,695) and \$2,692 for the three months ended September 30, 2018 and 2017, respectively, and \$(16,278) and \$7,753 for the six months ended September 30, 2018 and 2017, respectively. The change in foreign currency translation was impacted by the vote in the U.K. to withdraw from the European Union. We are currently in a two-year time period in which the terms of withdrawal are being negotiated and there may be impacts on our European business that are unknown at this time. We believe the change in foreign currency translation will become more volatile, but we do not expect this to have a material impact on our operating results and financial position.

Accumulated other comprehensive loss at September 30, 2018 was comprised of the following:

| | | |
|---|----|-----------------|
| Balance, April 1, 2018 | \$ | (13,956) |
| Foreign currency translation adjustment | | (16,278) |
| Balance, September 30, 2018 | \$ | <u>(30,234)</u> |

(12) INCOME TAXES

The Company's provision for income taxes was \$17,063 and \$29,115 for the three and six months ended September 30, 2018, respectively, and \$20,169 and \$29,304 for the three and six months ended September 30, 2017, respectively. This represents effective tax rates of 29.8% and 29.4% for the three and six months ended September 30, 2018, respectively, and 37.7% and 28.8% for the three and six months ended September 30, 2017, respectively. No changes have been made to the provisional estimates made under SAB 118 at March 31, 2018.

The decrease in the effective tax rate was primarily as a result of the Tax Act's decrease of the statutory rate from 35.0% to 21.0%. The primary drivers of the Company's effective tax rate being higher than the statutory rate of 21.0% for the six months ended September 30, 2018 were the provision for state taxes, the GILTI inclusion, and limits on deductibility of executive compensation under IRC Section 162(m).

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(13) NET INCOME PER SHARE ATTRIBUTABLE TO COMMON SHAREHOLDERS

The calculations of basic and diluted net income per share attributable to holders of shares of common stock are presented below.

| | <u>Three Months Ended September 30,</u> | | <u>Six Months Ended September 30,</u> | |
|---|---|-------------|---------------------------------------|-------------|
| | <u>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> |
| <i>Numerator:</i> | | | | |
| Net income attributable to holders of shares of common stock—basic | \$ 40,119 | \$ 33,357 | \$ 69,803 | \$ 72,601 |
| Net income attributable to holders of shares of common stock—diluted | \$ 40,119 | \$ 33,357 | \$ 69,803 | \$ 72,601 |
| <i>Denominator:</i> | | | | |
| Weighted average shares of common stock outstanding—basic | 62,258,919 | 62,117,998 | 62,620,017 | 62,230,177 |
| Weighted average number of incremental shares issuable from unvested restricted stock and restricted stock units, as calculated using the treasury stock method | 3,787,002 | 4,789,892 | 3,479,753 | 4,410,362 |
| Weighted average shares of common stock outstanding—diluted | 66,045,921 | 66,907,890 | 66,099,770 | 66,640,539 |
| Net income per share attributable to holders of shares of common stock | | | | |
| Basic | \$ 0.64 | \$ 0.54 | \$ 1.11 | \$ 1.17 |
| Diluted | \$ 0.61 | \$ 0.50 | \$ 1.06 | \$ 1.09 |

(14) EMPLOYEE BENEFIT PLANS

(a) Defined Contribution Plans

The Company sponsors a 401(k) defined contribution savings plan for its domestic employees and defined contribution retirement plans for its international employees. The Company contributed approximately \$541 and \$486 during the three months ended September 30, 2018 and 2017, respectively, and \$1,309 and \$1,012 during the six months ended September 30, 2018 and 2017, respectively, to these defined contribution plans.

(b) Share-Based Incentive Plans

During the period it was a subsidiary of Fram, certain employees of HL CA were granted restricted shares of Fram. Compensation expense related to these shares was recorded at the HL CA level as it was related to services provided by its employees. Under its 2006 incentive plan (the "2006 Incentive Plan"), Fram granted restricted share awards to employees of the Company as a component of annual incentive pay and occasionally in conjunction with new hire employment agreements. Under the 2006 Incentive Plan, awards typically vested after three years of service from the date of grant. Forfeitures of unvested share awards are recognized as they occur. Prior to the IPO, the grant-date fair value of each award was determined by Fram's board of directors using input from a third party, which used a combination of historical and forecasted results and market data. The methods used to estimate the fair value of Fram shares included the market approach and the income approach. For a further discussion related to the methods used, please see the Company's Annual Report on Form 10-K for the year ended March 31, 2018. In addition, the stock grants to employees of the Company in connection with the IPO (note 1) were made under the 2006 Incentive Plan.

HOULIHAN LOKEY, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (unaudited)****(All tables and balances are in thousands, except share data or otherwise stated)**

Following the IPO, additional awards of restricted shares have been and will be made under the Amended and Restated Houlihan Lokey, Inc. 2016 Incentive Award Plan (the "2016 Incentive Plan"), which became effective in August 2015 and was amended in October 2017. Under the 2016 Incentive Plan, it is anticipated that the Company will continue to grant cash- and equity-based incentive awards to eligible service providers in order to attract, motivate and retain the talent necessary to operate the Company's business. Equity-based incentive awards issued under the 2016 Incentive Plan generally vest over a four-year period. An aggregate of 52,582 restricted shares of Class A common stock were granted under the 2016 Incentive Plan to (i) two independent directors in August 2015 at \$21 per share, (ii) two independent directors in the first quarter of fiscal 2017 at \$25.21 per share, (iii) one independent director in the first quarter of fiscal 2017 at \$23.93 per share, and (iv) three independent directors in the first quarters of fiscal 2018 and 2019 at \$33.54 and \$44.50 and per share, respectively.

In March 2016, the FASB issued ASU No. 2016-09 which simplified several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification in the statement of cash flows. The Company adopted ASU 2016-09 in the first quarter of fiscal 2018. The changes that impacted the Company included a requirement that excess tax benefits and deficiencies be recognized as a component of provision for income taxes on the consolidated statements of comprehensive income rather than additional paid-in capital on the consolidated statements of changes in stockholders' equity as required in the previous guidance. Under the transition provisions, we have applied this new guidance prospectively with respect to excess tax benefits arising from vesting of share awards and such awards are no longer presented within financing activities in the consolidated statements of cash flows and are included the change in income taxes payable as an operating activity in the consolidated statements of cash flows during the six-month periods ended September 30, 2018 and 2017. During the six-month period ended September 30, 2017 excess tax benefits of \$9,406 were recorded as a component of the provision for income taxes and an operating activity on the consolidated statements of cash flows. The adoption of ASU 2016-09 resulted in a decrease to the provision for income taxes due to the vesting of share awards that were accelerated on February 14, 2017. The decrease to the provision occurred in the first quarter of fiscal 2018 because the Company's tax deduction is delayed to its tax year that corresponds to the tax year that the employees report the taxable income. In addition, there was an additional decrease to the provision for the year ended March 31, 2018 due to the vesting of share awards that were accelerated on October 21, 2017 that were due to vest in April and May 2018. The Company recorded cash outflows of \$1,947 and \$60 related to the settlement of share-based awards in satisfaction of withholding tax requirements in financing activities on the consolidated statements of cash flows for the six-month periods ended September 30, 2018 and 2017, respectively.

The share awards are classified as equity awards at the time of grant unless the number of shares granted is unknown. Awards that are settleable in shares based upon a future determinable stock price are classified as a liability until the price is established and the resulting number of shares is known, at which time they are re-classified from liabilities to equity awards. Activity in equity classified share awards which relate to the 2006 Incentive Plan and the 2016 Incentive Plan during the six months ended September 30, 2018 and 2017 is as follows:

| <u>Nonvested share awards</u> | <u>Shares</u> | <u>Weighted average grant date fair value</u> |
|-------------------------------|------------------|---|
| Balance at April 1, 2017 | 3,626,270 | \$ 22.35 |
| Granted | 1,217,605 | 34.82 |
| Vested | (3,733) | 15.94 |
| Forfeited/Repurchased | (106,568) | 25.27 |
| Balance at September 30, 2017 | <u>4,733,574</u> | <u>\$ 25.50</u> |
| Balance at April 1, 2018 | 2,854,893 | \$ 26.39 |
| Granted | 1,059,616 | 49.35 |
| Vested | (74,504) | 49.43 |
| Forfeited/Repurchased | (49,118) | 32.25 |
| Balance at September 30, 2018 | <u>3,790,887</u> | <u>\$ 32.29</u> |

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Activity in liability classified share awards during the six months ended September 30, 2018 and 2017 is as follows:

| Awards settleable in shares | Fair value |
|---|-------------------|
| Balance at April 1, 2017 | \$ 12,743 |
| Offer to grant | 5,450 |
| Share price determined-converted to cash payments | (5,920) |
| Forfeited | (237) |
| Balance at September 30, 2017 | <u>\$ 12,036</u> |
| Balance at April 1, 2018 | \$ 15,493 |
| Offer to grant | 11,225 |
| Share price determined-converted to cash payments | (300) |
| Share price determined-transferred to equity grants | (4,496) |
| Forfeited | (476) |
| Balance at September 30, 2018 | <u>\$ 21,446</u> |

Compensation expenses for the Company associated with both equity and liability classified awards totaled \$14,621 and \$11,764 for the three months ended September 30, 2018 and 2017, respectively, and \$30,759 and \$23,562 for the six months ended September 30, 2018 and 2017, respectively. At September 30, 2018, there was \$122,398 of total unrecognized compensation cost related to unvested share awards granted under both the 2006 Incentive Plan and 2016 Incentive Plan. That cost is expected to be recognized over a weighted average period of 1.36 years.

On February 14, 2017, in connection with the February 2017 Follow-on Offering discussed in notes 1 and 4, the Company accelerated the vesting of certain awards that were due to vest in April and May 2017. On October 30, 2017, in connection with the October 2017 Follow-on Offering discussed in notes 1 and 4, the Company accelerated the vesting of certain awards that were due to vest in April and May 2018. Under the terms of both the 2006 Incentive Plan and 2016 Incentive Plan, upon the vesting of awards, shares may be withheld to meet the minimum statutory tax withholding requirements. The Company satisfied such obligations upon vesting by retiring 704,528 shares upon the accelerated vesting of 1,907,890 shares and 806,248 shares upon the accelerated vesting of 1,737,461 shares in February 2017 and October 2017, respectively.

On October 19, 2017, our board of directors approved an amendment (the "Amendment") to the 2016 Incentive Plan reducing the number of shares of common stock available for issuance under the 2016 Incentive Plan by approximately 12.2 million shares. Under the Amendment, the aggregate number of shares of common stock that are available for issuance under awards granted pursuant to the 2016 Incentive Plan is equal to the sum of (i) 8.0 million and (ii) any shares of our Class B common stock that are subject to awards under our 2006 Incentive Plan that terminate, expire or lapse for any reason after October 19, 2017.

The number of shares available for issuance will be increased annually beginning on April 1, 2018 and ending on April 1, 2025, by an amount equal to the lowest of:

- 6,540,659 shares of our Class A common stock and Class B common stock;
- Six percent of the shares of Class A common stock and Class B common stock outstanding on the final day of the immediately preceding fiscal year; and
- such smaller number of shares as determined by our board of directors.

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(15) STOCKHOLDERS' EQUITY

(a) Class A Common Stock

In conjunction with the Company's IPO, 12,075,000 Class A shares were sold to the public by existing shareholders and 9,524 Class A shares were issued to non-employee directors. During the six months ended September 30, 2018, 4,212 shares were issued to non-employee directors, and 2,001,689 shares were converted from Class B to Class A. During the six months ended September 30, 2017, 5,589 shares were issued to non-employee directors, and 3,064,907 shares were converted from Class B to Class A. As of September 30, 2018, there were 609,721 shares of Class A common stock held by ORIX USA. Each share of Class A common stock is entitled to one vote per share.

(b) Class B Common Stock

Each share of Class B common stock may be converted into one share of Class A common stock at the option of its holder and will be automatically converted into one share of Class A common stock upon transfer thereof, subject to certain exceptions. In April 2017, the Company settled its \$192,372 forward purchase obligation with a related party and the funds held in escrow were released and the related 6,900,000 Class B shares were retired. In April 2017, the Company repurchased from employees 71,913 shares of Class B common stock received pursuant to contractual arrangements entered into in connection with a prior acquisition. In April 2018, the Company settled its \$93,500 forward purchase obligation with a related party and the funds held in escrow were released and the related 2,000,000 Class B shares were retired. As of September 30, 2018, there were 25,295,231 Class B shares held by the HL Voting Trust and 5,768,214 Class B shares held by ORIX USA. Each share of Class B common stock is entitled to ten votes per share.

(c) Dividends

Previously declared unpaid dividends related to unvested shares of \$6,028 and \$4,109 were unpaid as of September 30, 2018 and 2017, respectively.

(d) Stock subscriptions receivable.

Employees of the Company periodically issued notes receivable to the Company documenting loans made by the Company to such employees for the purchase of restricted shares of the Company.

(e) Share repurchase program

In February 2017, the board of directors authorized the repurchase of up to \$50.0 million of the Company's Class A common stock. In May 2017, the Company entered into a stock buyback program with a third-party financial institution to purchase shares of common stock. In July 2018, the board of directors authorized the repurchase of up to \$100 million of the Company's common stock. During the six months ended September 30, 2018 and 2017, the Company repurchased and retired 1,145,982 and 430,237 shares of its outstanding common stock at a weighted average price of \$48.86 and \$35.17 per share, excluding commissions, for an aggregate purchase price of \$55,989 and \$15,131, respectively.

HOULIHAN LOKEY, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited)
(All tables and balances are in thousands, except share data or otherwise stated)

(16) COMMITMENTS AND CONTINGENCIES

The Company has been named in various legal actions arising in the normal course of business. In the opinion of the Company, in consultation with legal counsel, the final resolutions of these matters are not expected to have a material adverse effect on the Company's financial condition, operations and cash flows.

Our obligation under the loan payable to affiliate is subordinated to our obligations under the revolving credit facility with Bank of America, N.A. The scheduled aggregate repayments of the loan payable to affiliate included in other liabilities in the accompanying consolidated balance sheets, the loans payable to former shareholders, and the loan payable to non-affiliates are as follows:

Year ended March 31,

| | | |
|---------------------|----|---------------|
| Remainder of 2019 | \$ | 595 |
| 2020 | | 654 |
| 2021 | | 575 |
| 2022 | | 18,453 |
| 2023 | | 201 |
| 2024 and thereafter | | 12,856 |
| Total | \$ | <u>33,334</u> |

The Company also provides routine indemnifications relating to certain real estate (office) lease agreements under which it may be required to indemnify property owners for claims and other liabilities arising from the Company's use of the applicable premises. In addition, the Company guarantees the performance of its subsidiaries under certain office lease agreements. The terms of these obligations vary, and because a maximum obligation is not explicitly stated, the Company has determined that it is not possible to make an estimate of the maximum amount that it could be obligated to pay under such contracts. Based on historical experience and evaluation of specific indemnities, management believes that judgments, if any, against the Company related to such matters are not likely to have a material effect on the consolidated financial statements. Accordingly, the Company has not recorded any liability for these obligations as of September 30, 2018 or March 31, 2018.

An acquisition made in January 2017 included contingent consideration with a carrying value of \$0 and \$4,085 as of September 30, 2018 and March 31, 2018, respectively, which are included in other liabilities in the accompanying consolidated balance sheets.

Straight-line rent expense under noncancelable operating lease arrangements and the related operating expenses were approximately \$10,194 and \$6,744 for the three months ended September 30, 2018 and 2017, respectively, and \$18,163 and \$13,762 for the six months ended September 30, 2018 and 2017, respectively. The approximate future minimum annual noncancelable rental commitments required under these agreements with initial terms in excess of one year are as follows:

Year ended March 31,

| | | |
|---------------------|----|----------------|
| Remainder of 2019 | \$ | 11,699 |
| 2020 | | 23,666 |
| 2021 | | 25,431 |
| 2022 | | 23,250 |
| 2023 | | 18,231 |
| 2024 and thereafter | | 52,307 |
| Total | \$ | <u>154,584</u> |

HOULIHAN LOKEY, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited)
(All tables and balances are in thousands, except share data or otherwise stated)
(17) SEGMENT AND GEOGRAPHICAL INFORMATION

The Company's reportable segments are described in note 1 and each are individually managed and provide separate services which require specialized expertise for the provision of those services. Revenues by segment represent fees earned on the various services offered within each segment. Segment profit represents each segment's profit, which consists of segment revenues, less (1) direct expenses including compensation, employee recruitment, travel, meals and entertainment, professional fees, and bad debt and (2) expenses allocated by headcount such as communications, rent, depreciation and amortization, and office expense. The corporate expense category includes costs not allocated to individual segments, including charges related to incentive compensation and share-based payments to corporate employees, as well as expenses of senior management and corporate departmental functions managed on a worldwide basis, including office of the executives, accounting, human resources, human capital management, marketing, information technology, and compliance and legal. The following tables present information about revenues, profit and assets by segment and geography.

| | Three Months Ended September 30, | | Six Months Ended September 30, | |
|--|----------------------------------|------------|--------------------------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues by segment: | | | | |
| Corporate Finance | \$ 146,057 | \$ 145,821 | \$ 278,928 | \$ 269,820 |
| Financial Restructuring | 92,684 | 63,281 | 143,160 | 122,310 |
| Financial Advisory Services | 36,251 | 33,082 | 72,906 | 67,545 |
| Total segment revenues | \$ 274,992 | \$ 242,183 | \$ 494,994 | \$ 459,674 |
| Segment profit | | | | |
| Corporate Finance | \$ 43,803 | \$ 54,211 | \$ 83,899 | \$ 95,786 |
| Financial Restructuring | 29,449 | 7,840 | 41,803 | 18,575 |
| Financial Advisory Services | 6,671 | 6,729 | 14,086 | 15,192 |
| Total segment profit | 79,923 | 68,780 | 139,788 | 129,553 |
| Corporate expenses | 23,748 | 15,454 | 43,483 | 29,354 |
| Other (income) expenses, net | (1,007) | (200) | (2,613) | (1,706) |
| Income before provision for income taxes | \$ 57,182 | \$ 53,526 | \$ 98,918 | \$ 101,905 |

| | September 30, 2018 | March 31, 2018 |
|-----------------------------|--------------------|----------------|
| Assets by segment: | | |
| Corporate Finance | \$ 364,057 | \$ 337,584 |
| Financial Restructuring | 175,113 | 185,486 |
| Financial Advisory Services | 118,857 | 126,034 |
| Total segment assets | 658,027 | 649,104 |
| Corporate assets | 562,379 | 769,737 |
| Total assets | \$ 1,220,406 | \$ 1,418,841 |

| | Three Months Ended September 30, | | Six Months Ended September 30, | |
|------------------------|----------------------------------|------------|--------------------------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues by geography: | | | | |
| United States | \$ 231,044 | \$ 209,715 | \$ 414,286 | \$ 410,022 |
| International | 43,948 | 32,468 | 80,708 | 49,652 |
| Total revenues | \$ 274,992 | \$ 242,183 | \$ 494,994 | \$ 459,674 |

| | September 30, 2018 | March 31, 2018 |
|----------------------|--------------------|----------------|
| Assets by geography: | | |
| United States | \$ 822,776 | \$ 957,897 |
| International | 397,630 | 460,944 |
| Total assets | \$ 1,220,406 | \$ 1,418,841 |

HOULIHAN LOKEY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)

(All tables and balances are in thousands, except share data or otherwise stated)

(18) SUBSEQUENT EVENTS

The Company has evaluated subsequent events from the consolidated balance sheet date through the date at which the consolidated financial statements were available to be issued. As a result of that evaluation, we have determined that there were no subsequent events requiring disclosure in the financial statements, except as noted below.

On October 18, 2018, the Company's Board of Directors declared a quarterly cash dividend of \$0.27 per share of Class A and Class B common stock, payable on December 14, 2018 to shareholders of record on December 3, 2018.

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

Forward-Looking Statements

The following discussion should be read together with our consolidated financial statements and the related notes that appear elsewhere in this Quarterly Report on Form 10-Q. We make statements in this discussion that are forward-looking statements. In some cases, you can identify these statements by forward-looking words such as “may,” “might,” “will,” “should,” “expects,” “plans,” “anticipates,” “could,” “targets,” “projects,” “contemplates,” “believes,” “estimates,” “intends,” “predicts,” “potential” or “continue,” the negative of these terms or other similar expressions. These forward-looking statements, which are subject to risks, uncertainties, and assumptions about us, may include projections of our future financial performance, based on our growth strategies and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements, including but not limited to the factors listed under the heading “Cautionary Note Regarding Forward-Looking Statements” in our Annual Report on Form 10-K for the year ended March 31, 2018. Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy or completeness of any of these forward-looking statements. These forward-looking statements speak only as of the date of this filing. You should not rely upon forward-looking statements as a prediction of future events. We are under no duty to and we do not undertake any obligation to update or review any of these forward-looking statements after the date of this filing to conform our prior statements to actual results or revised expectations whether as a result of new information, future developments or otherwise.

Key Financial Measures

Revenues

Revenues include fee revenues and reimbursements of expenses (see Note 2). Revenues reflect revenues from our Corporate Finance (“CF”), Financial Restructuring (“FR”), and Financial Advisory Services (“FAS”) business segments that substantially consist of fees for advisory services.

Revenues for all three business segments are recognized upon satisfaction of the performance obligation and may be satisfied over time or at a point in time. The amount and timing of the fees paid vary by the type of engagement. In general, advisory fees are paid at the time an engagement letter is signed (“Retainer Fees”), during the course of the engagement (“Progress Fees”), or upon the successful completion of a transaction or engagement (“Completion Fees”).

Prior to April 1, 2018, the timing of the recognition of these various fees were generally recognized on a monthly basis, except in situations where there is uncertainty as to the timing of collection of the amount due. Progress Fees were recognized based on management’s estimates of the relative proportion of services provided through the financial reporting date to the total services required to be performed. Completion Fees were recognized only upon substantial completion of the contingencies stipulated by the engagement agreement. In some cases, approval of our fees is required from the courts or other regulatory authority; in these circumstances, the recognition of revenue was often deferred until approval is granted. However, if the fee that is going to be collected from the client is fixed and determinable, and the collectability of the fee is reasonably assured, there were instances when revenue recognition prior to such approval were appropriate under GAAP. In instances when the revenue recognized on a specific engagement exceeds the amounts billed, unbilled work-in-process was recorded. Billed receivables were recorded as accounts receivable in the consolidated balance sheets.

On April 1, 2018, we adopted ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize revenue as contractual services are transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. See notes 2 and 3 included in Part I, Item 1 of this Form 10-Q for a more detailed discussion.

Corporate Finance provides general financial advisory services in addition to advice on mergers and acquisitions and capital markets offerings. We advise public and private institutions on a wide variety of situations, including buy-side and sell-side transactions, as well as leveraged loans, private mezzanine debt, high-yield debt, initial public offerings, follow-ons, convertibles, equity private placements, private equity, and liability management transactions, and advise financial sponsors on all types of transactions. The majority of our Corporate Finance revenues consists of Completion Fees. A Corporate Finance transaction can fail to be completed for many reasons that are outside of our control. In these instances, our fees are generally limited to Retainer Fees and in some cases Progress Fees that may have been earned. Effective April 1, 2018, fees received prior to the completion of the transaction including Retainer Fees and Progress Fees are deferred within deferred income on the consolidated balance sheet and not recognized until effective completion of the related transaction.

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Financial Restructuring provides advice to debtors, creditors and other parties-in-interest in connection with recapitalization/deleveraging transactions implemented both through bankruptcy proceedings and through out-of-court exchanges, consent solicitations or other mechanisms, as well as in distressed mergers and acquisitions and capital markets activities. As part of these engagements, our Financial Restructuring business segment offers a wide range of advisory services to our clients, including: the structuring, negotiation, and confirmation of plans of reorganization; structuring and analysis of exchange offers; corporate viability assessment; dispute resolution and expert testimony; and procuring debtor-in-possession financing. Although atypical, a Financial Restructuring transaction can fail to be completed for many reasons that are outside of our control. In these instances, our fees are generally limited to the initial Retainer Fees and/or Progress Fees.

Financial Advisory Services primarily provides valuations of various assets, including: companies; illiquid debt and equity securities; and intellectual property (among other assets and liabilities). These valuations are used for financial reporting, tax reporting, and other purposes. In addition, our Financial Advisory Services business segment renders fairness opinions in connection with mergers and acquisitions and other transactions, and solvency opinions in connection with corporate spin-offs and dividend recapitalizations, and other types of financial opinions in connection with other transactions. Also, our Financial Advisory Services business segment provides dispute resolution services to clients where fees are usually based on the hourly rates of our financial professionals. Lastly, our Financial Advisory Services business segment provides strategic consulting services to clients where fees are either fixed or based on the hourly rates of our consulting professionals. Unlike our Corporate Finance or Financial Restructuring segments, the fees generated in our Financial Advisory Services segment are generally not contingent on the successful completion of a transaction. Effective April 1, 2018, for engagements which require that an opinion be rendered, revenues are recognized when the opinion or service has been delivered to the client. However, certain engagements consist of advisory services where fees are based on the hourly rates of our financial professionals. Such revenues are recognized over time as the benefits of these advisory services are transferred to the Company's clients throughout the course of the engagement and as a practical expedient, the Company has elected to use the 'as-invoiced' approach to recognize revenue.

Operating Expenses

Our operating expenses are classified as employee compensation and benefits expense and non-compensation expense; headcount is the primary driver of our operating expenses. Subsequent to the adoption of ASU No. 2014-09, *Revenue from Contracts with Customers*, the Company prospectively changed the presentation of reimbursements of certain out-of-pocket deal expenses from a net presentation within non-compensation expenses to a gross basis in revenues.

Employee Compensation and Benefits Expense. Our employee compensation and benefits expense, which accounts for the majority of our operating expenses, is determined by management based on fee revenues earned, headcount, the competitiveness of the prevailing labor market, and anticipated compensation expectations of our employees. These factors may fluctuate, and as a result, our employee compensation and benefits expense may fluctuate materially in any particular period. Accordingly, the amount of employee compensation and benefits expense recognized in any particular period may not be consistent with prior periods or indicative of future periods.

Our employee compensation and benefits expense consists of base salary, payroll taxes, benefits, annual incentive compensation payable as cash bonus awards, deferred cash bonus awards, and the amortization of equity-based bonus awards. Base salary and benefits are paid ratably throughout the year. Our annual equity-based bonus awards include fixed share compensation awards and fixed dollar awards as a component of the annual bonus awards for certain employees. These equity awards are generally subject to annual vesting requirements over a three- or four-year period beginning at the date of grant, which occurs in the first quarter of each fiscal year; accordingly, expenses are amortized over the stated vesting period. In most circumstances, the unvested portion of these awards is subject to forfeiture should the employee depart from the Company. Cash bonuses, which are accrued monthly, are discretionary and dependent upon a number of factors including the Company's performance and are generally paid in the first quarter of each year with respect to prior year performance. Generally, a portion of the cash bonus is also deferred and paid in the third quarter of the fiscal year in which the bonus is awarded.

The ratio of employee compensation and benefits to revenues is referred to as the "Compensation Ratio." In managing employee compensation and benefits expense, however, we focus on employee compensation and benefits excluding certain equity and cash grants awarded in connection with our IPO. We believe adjusted employee compensation and benefits reflect the actual compensation cost more accurately than the GAAP measure of compensation cost.

Non-Compensation Expense. The balance of our operating expenses includes costs for travel, meals and entertainment, rent, depreciation and amortization, information technology and communications, professional fees, and other operating expenses. We refer to all of these expenses as non-compensation expenses. A portion of our non-compensation expenses fluctuate in response to changes in headcount.

Other (Income) Expenses, net

Other (income) expenses, net includes (i) interest income earned on non-marketable and investment securities, cash and cash equivalents, loans receivable from affiliates and employee loans, (ii) interest expense and/or gains or losses associated with our Revolving Credit Facility (defined herein), the loan payable to affiliate and loans payable to former shareholders, (iii) interest expense on the loan payable to non-affiliates, (iv) equity income and/or gains or losses from funds and partnership interests where we have more than a minor ownership interest or more than minor influence over operations but do not have a controlling interest and are not the primary beneficiary, and (v) gains associated with the reduction of earnout liabilities.

Results of Consolidated Operations

The following is a discussion of our results of operations for the three and six months ended September 30, 2018 and 2017. For a more detailed discussion of the factors that affected the revenues and the operating expenses of our Corporate Finance, Financial Restructuring and Financial Advisory Services business segments in these periods, see Part I, Item 2 of this Form 10-Q under the heading “Business Segments” below.

| (\$ in thousands) | Three Months Ended September 30, | | | Six Months Ended September 30, | | |
|---|-------------------------------------|------------|--------|-----------------------------------|------------|--------|
| | 2018 | 2017 | Change | 2018 | 2017 | Change |
| Revenues | \$ 274,992 | \$ 242,183 | 14 % | \$ 494,994 | \$ 459,674 | 8 % |
| Operating expenses: | | | | | | |
| Employee compensation and benefits | 175,321 | 161,295 | 9 % | 314,501 | 306,804 | 3 % |
| Non-compensation expenses | 43,496 | 27,562 | 58 % | 84,188 | 52,671 | 60 % |
| Total operating expenses | 218,817 | 188,857 | 16 % | 398,689 | 359,475 | 11 % |
| Operating income | 56,175 | 53,326 | 5 % | 96,305 | 100,199 | (4)% |
| Other (income) expense, net | (1,007) | (200) | NM | (2,613) | (1,706) | NM |
| Income before provision for income taxes | 57,182 | 53,526 | 7 % | 98,918 | 101,905 | (3)% |
| Provision for income taxes | 17,063 | 20,169 | (15)% | 29,115 | 29,304 | (1)% |
| Net income attributable to Houlihan Lokey, Inc. | \$ 40,119 | \$ 33,357 | 20 % | \$ 69,803 | \$ 72,601 | (4)% |

NM = not meaningful

Three Months Ended September 30, 2018 versus September 30, 2017

Revenues were \$275.0 million for the three months ended September 30, 2018, compared with \$242.2 million for the three months ended September 30, 2017, representing an increase of 14%. For the three months ended September 30, 2018, Corporate Finance revenues were relatively flat, Financial Restructuring revenues increased 46% and Financial Advisory Services revenues increased 10%, compared with the three months ended September 30, 2017.

Operating expenses were \$218.8 million for the three months ended September 30, 2018, compared with \$188.9 million for the three months ended September 30, 2017, an increase of 16%. Employee compensation and benefits expense, as a component of operating expenses, was \$175.3 million for the three months ended September 30, 2018, compared with \$161.3 million for the three months ended September 30, 2017, an increase of 9%. The increase in employee compensation and benefits expense was primarily a result of higher fee revenues for the quarter when compared with the same quarter last year. The Compensation Ratio was 63.8% for the three months ended September 30, 2018, compared with 66.6% for the three months ended September 30, 2017. Non-compensation expenses, as a component of operating expenses, were \$43.5 million for the three months ended September 30, 2018, compared with \$27.6 million for the three months ended September 30, 2017. The increase in non-compensation expenses was primarily driven by (i) the adoption of the new revenue recognition standard, (ii) higher rent expense, (iii) higher professional fees, and (iv) general increases in travel, meals, and entertainment and other operating expenses.

Other (income) expenses, net increased to \$(1.0) million for the three months ended September 30, 2018, compared with \$(0.2) million for the three months ended September 30, 2017, primarily as a result of a gain associated with the Italy joint venture and higher interest income on cash balances.

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The provision for income taxes for the three months ended September 30, 2018 was \$17.1 million, which reflected an effective tax rate of 29.8%. The provision for income taxes for the three months ended September 30, 2017 was \$20.2 million, which reflected an effective tax rate of 37.7%. The primary drivers of the Company's effective tax rate being higher than the federal statutory rate of 21% for the three months ended September 30, 2018 were the provision for state taxes, the GILTI inclusion, and limits on deductibility of executive compensation under IRC Section 162(m) and limits on the deductibility of certain meal and entertainment expense items.

Six Months Ended September 30, 2018 versus September 30, 2017

Revenues were \$495.0 million for the six months ended September 30, 2018, compared with \$459.7 million for the six months ended September 30, 2017, representing an increase of 8%. For the six months ended September 30, 2018, Corporate Finance revenues increased 3%, Financial Restructuring revenues increased 17% and Financial Advisory Services revenues increased 8%, compared with the six months ended September 30, 2017.

Operating expenses were \$398.7 million for the six months ended September 30, 2018, compared with \$359.5 million for the six months ended September 30, 2017, an increase of 11%. Employee compensation and benefits expense, as a component of operating expenses, was \$314.5 million for the six months ended September 30, 2018, compared with \$306.8 million for the six months ended September 30, 2017, an increase of 3%. The increase in employee compensation and benefits expense was primarily a result of higher fee revenues for the quarter when compared with the same quarter last year. The Compensation Ratio was 63.5% for the six months ended September 30, 2018, compared with 66.7% for the six months ended September 30, 2017. Non-compensation expenses, as a component of operating expenses, were \$84.2 million for the six months ended September 30, 2018 and \$52.7 million for the six months ended September 30, 2017. The increase in non-compensation expenses was primarily driven by (i) the adoption of the new revenue recognition standard, (ii) higher rent expense, (iii) higher professional fees, and (iv) general increases in travel, meals, and entertainment and other operating expenses.

Other (income) expenses, net increased to \$(2.6) million for the six months ended September 30, 2018, compared with \$(1.7) million for the six months ended September 30, 2017, primarily as a result of a gain associated with the Italy joint venture and higher interest income on cash balances.

The provision for income taxes for the six months ended September 30, 2018 was \$29.1 million, which reflected an effective tax rate of 29.4%. The provision for income taxes for the six months ended September 30, 2017 was \$29.3 million, which reflected an effective tax rate of 28.8%. The primary drivers of the Company's effective tax rate being higher than the federal statutory rate of 21% for the six months ended September 30, 2018 were the provision for state taxes, the GILTI inclusion, and limits on deductibility of executive compensation under IRC Section 162(m) and limits on the deductibility of certain meal and entertainment expense items. The Company's tax rate during the six month period ended September 30, 2017 was driven lower than the statutory rate of 35% by the adoption of ASU No. 2016-09, Compensation - Stock Compensation which resulted in a decrease to the provision for income taxes due to the vesting of share awards that was accelerated on February 14, 2017. The decrease to the provision came into effect in the quarter ended June 30, 2017 because the Company's tax deduction is delayed to its tax year that corresponds to the tax year that the employees report the taxable income.

Business Segments

The following table presents revenues, expenses and contributions from our continuing operations by business segment. The revenues by segment represents each segment's revenues, and the profit by segment represents profit for each segment before corporate expenses, other (income) expenses, net, and income taxes.

| (\$ in thousands) | Three Months Ended September 30, | | | Six Months Ended September 30, | | |
|---|-------------------------------------|------------------|-------------|-----------------------------------|-------------------|-------------|
| | 2018 | 2017 | Change | 2018 | 2017 | Change |
| Revenues by Segment | | | | | | |
| Corporate Finance | \$ 146,057 | \$ 145,821 | — % | \$ 278,928 | \$ 269,820 | 3 % |
| Financial Restructuring | 92,684 | 63,281 | 46 % | 143,160 | 122,310 | 17 % |
| Financial Advisory Services | 36,251 | 33,082 | 10 % | 72,906 | 67,545 | 8 % |
| Total Segment Revenues | 274,992 | 242,183 | 14 % | 494,994 | 459,674 | 8 % |
| Segment Profit⁽¹⁾ | | | | | | |
| Corporate Finance | 43,803 | 54,211 | (19)% | 83,899 | 95,786 | (12)% |
| Financial Restructuring | 29,449 | 7,840 | 276 % | 41,803 | 18,575 | 125 % |
| Financial Advisory Services | 6,671 | 6,729 | (1)% | 14,086 | 15,192 | (7)% |
| Total Segment Profit | 79,923 | 68,780 | 16 % | 139,788 | 129,553 | 8 % |
| Corporate Expenses ⁽²⁾ | 23,748 | 15,454 | 54 % | 43,483 | 29,354 | 48 % |
| Other (income) expenses, net | (1,007) | (200) | NM | (2,613) | (1,706) | NM |
| Income Before Provision for Income Taxes | \$ 57,182 | \$ 53,526 | 7 % | \$ 98,918 | \$ 101,905 | (3)% |

Segment Metrics:

Number of Managing Directors⁽³⁾

| | | | | | | |
|-----------------------------|-----|----|-------|-----|----|-------|
| Corporate Finance | 106 | 94 | 13 % | 106 | 94 | 13 % |
| Financial Restructuring | 45 | 40 | 13 % | 45 | 40 | 13 % |
| Financial Advisory Services | 35 | 40 | (13)% | 35 | 40 | (13)% |

Number of Closed Transactions/Fee Events⁽⁴⁾

| | | | | | | |
|-----------------------------|-----|-----|-------|-----|-----|------|
| Corporate Finance | 62 | 64 | (3)% | 131 | 116 | 13 % |
| Financial Restructuring | 20 | 14 | 43 % | 33 | 32 | 3 % |
| Financial Advisory Services | 469 | 532 | (12)% | 771 | 842 | (8)% |

NM = not meaningful

Total may not sum due to rounding.

- We adjust the compensation expense for a business segment in situations where an employee residing in one business segment is performing work in another business segment where the fee revenues are accrued.
- Corporate expenses represent expenses that are not allocated to individual business segments such as Office of the Executives, Accounting, Information Technology, Compliance, Legal, Marketing, Human Capital Management, and Human Resources.
- As of period end.
- Fee Events applicable to FAS only; a Fee Event includes any engagement that involves revenue activity during the measurement period with a fee revenue minimum of \$1,000 (one thousand dollars).

Corporate Finance

Three Months Ended September 30, 2018 versus September 30, 2017

Revenues for Corporate Finance were \$146.1 million for the three months ended September 30, 2018, compared with \$145.8 million for the three months ended September 30, 2017. The increase in revenues due to the recognition of reimbursements of out-of-pocket expenses as revenues was offset by a decrease in the number of transactions that closed during the quarter compared to the same period last year.

Segment profit for Corporate Finance was \$43.8 million for the three months ended September 30, 2018, compared with \$54.2 million for the three months ended September 30, 2017. Profitability decreased primarily as a result of higher compensation expenses and non-compensation expenses as a percentage of revenues when compared to the same quarter last year.

Six Months Ended September 30, 2018 versus September 30, 2017

Revenues for Corporate Finance were \$278.9 million for the six months ended September 30, 2018, compared with \$269.8 million for the six months ended September 30, 2017, representing an increase of 3%. The increase in revenues was primarily driven by an increase in the number of closed transactions for the six months ended September 30, 2018 when compared to the same period last year, and the recognition of reimbursements of out-of-pocket expenses as revenues.

Segment profit for Corporate Finance was \$83.9 million for the six months ended September 30, 2018, compared with \$95.8 million for the six months ended September 30, 2017. Profitability decreased primarily as a result of higher compensation and non-compensation expenses as a percentage of revenues when compared to the same period last year.

Financial Restructuring

Three Months Ended September 30, 2018 versus September 30, 2017

Revenues for Financial Restructuring were \$92.7 million for the three months ended September 30, 2018, compared with \$63.3 million for the three months ended September 30, 2017, representing an increase of 46%. The increase in revenues was primarily driven by an increase in the number of transactions closed as well as an increase in the average transaction fee on closed deals during the quarter.

Segment profit for Financial Restructuring was \$29.4 million for the three months ended September 30, 2018, compared with \$7.8 million for the three months ended September 30, 2017, an increase of 276%. Profitability increased primarily as a result of significantly lower employee compensation and benefits expense as a percentage of revenues, as well as higher revenues, when compared to the same quarter last year.

Six Months Ended September 30, 2018 versus September 30, 2017

Revenues for Financial Restructuring were \$143.2 million for the six months ended September 30, 2018, compared with \$122.3 million for the six months ended September 30, 2017, representing an increase of 17%. The increase in revenues was primarily driven by an increase in the number of transactions closed as well as an increase in the average transaction fee on closed deals during the period.

Segment profit for Financial Restructuring was \$41.8 million for the six months ended September 30, 2018, compared with \$18.6 million for the six months ended September 30, 2017, an increase of 125%. Profitability increased primarily as a result of significantly lower employee compensation and benefits expense as a percentage of revenues, as well as higher revenues, when compared to the same period last year.

Financial Advisory Services

Three Months Ended September 30, 2018 versus September 30, 2017

Revenues for Financial Advisory Services were \$36.3 million for the three months ended September 30, 2018, compared with \$33.1 million for the three months ended September 30, 2017, representing an increase of 10%. The increase in revenues was primarily due to the recognition of reimbursements of out-of-pocket expenses as revenues.

Segment profit for Financial Advisory Services was \$6.7 million for the three months ended September 30, 2018, compared with \$6.7 million for the three months ended September 30, 2017. Profitability remained flat primarily as a result of relatively flat fee revenues when compared to the same quarter last year. Revenues derived from reimbursements of out-of-pocket expenses are offset by a similar increase in non-compensation expenses and do not affect profitability.

Six Months Ended September 30, 2018 versus September 30, 2017

Revenues for Financial Advisory Services were \$72.9 million for the six months ended September 30, 2018, compared with \$67.5 million for the six months ended September 30, 2017, representing an increase of 8%. The increase in revenues was primarily due to the recognition of reimbursements of out-of-pocket expenses as revenues.

Segment profit for Financial Advisory Services was \$14.1 million for the six months ended September 30, 2018, compared with \$15.2 million for the six months ended September 30, 2017, representing a decrease of (7)%. Profitability decreased primarily as a result of higher compensation and non-compensation expenses as a percentage of revenues when compared to the same period last year.

Corporate Expenses

Three Months Ended September 30, 2018 versus September 30, 2017

Corporate expenses were \$23.7 million for the three months ended September 30, 2018, compared with \$15.5 million for the three months ended September 30, 2017. Corporate expenses increased primarily as a result of increased operating costs associated with the continued growth of the Company, including non-recurring costs associated with the setup of HL Finance, our new syndicated levered finance platform, during the quarter.

Six Months Ended September 30, 2018 versus September 30, 2017

Corporate expenses were \$43.5 million for the six months ended September 30, 2018, compared with \$29.4 million for the six months ended September 30, 2017. Corporate expenses increased primarily as a result of increased operating costs associated with the continued growth of the Company, including non-recurring costs associated with acquisitions, secondary offerings completed during the period, and the setup of HL Finance.

Liquidity and Capital Resources

Our current assets comprise cash, short term investment securities, receivables from affiliates, income taxes receivable, accounts receivable and unbilled work in process related to fees earned from providing advisory services. Our current liabilities include deferred income, accounts payable and accrued expenses, including accrued employee compensation expenses and current portion of loan obligations.

Our cash and cash equivalents include cash held at banks. We have not experienced any losses in our cash accounts. We maintain moderate levels of cash on hand in support of regulatory requirements for our registered broker-dealer. At September 30, 2018, we had \$107 million of cash in foreign subsidiaries. In August 2015, prior to the consummation of the IPO, we paid a dividend to our shareholders and we repaid in full a receivable from ORIX USA. A portion of the dividend was paid to ORIX USA in the form of a \$45.0 million note (the "ORIX Note") that bore interest at an annual rate of LIBOR plus 165 basis points and is payable quarterly. Beginning on June 30, 2016, the Company began making required quarterly repayments of principal in the amount of \$7.5 million, with the remaining principal amount due on the second anniversary of the completion of the IPO. On May 23, 2017, the remaining \$15 million of the ORIX Note was repaid with interest and without penalty. Excess cash on hand in our U.K. subsidiary had been generally maintained in a receivable owned by ORIX Global Capital Ltd. ("OGC"), a U.K. subsidiary of ORIX Corporation (the "Cash Management Agreement"). OGC paid interest to us under the Cash Management Agreement at an annual rate of LIBOR plus 165 basis points, calculated and payable monthly. In May 2016, OGC notified the Company that it would no longer be accepting deposits under the agreement and repaid all outstanding amounts. In June 2017, we began investing our excess cash to generate interest income. Our excess cash may be invested from time to time in short term investments, including treasury securities, commercial paper, certificates of deposit and investment grade corporate debt securities. Please refer to note 6 for further detail.

On November 16, 2015, we issued the loan payable to non-affiliates in connection with the Leonardo transaction, which is a EUR14.0 million note bearing interest at an annual rate of 1.50% and is payable on November 16, 2040. Under certain circumstances, the note may be paid in part or in whole over a five year period in equal annual installments. In each of January 2017 and December 2017, we paid a portion of this loan in the amount of EUR 2.9 million. The remaining principal balance of the loan as of September 30, 2018 was \$8.9 million, which included foreign currency translation adjustments and interest expense.

As of September 30, 2018, our unrestricted cash and cash equivalents and investment securities were \$254.2 million. As of September 30, 2018, we had \$0.4 million in restricted cash. Restricted cash represented the letter of credit issued for our Frankfurt office.

Our liquidity is highly dependent upon cash receipts from clients which in turn are generally dependent upon the successful completion of transactions as well as the timing of receivables collections, which typically occur within 60 days of billing. As of September 30, 2018, net accounts receivable were \$66.0 million. As of September 30, 2018, unbilled work in process was \$31.8 million.

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We currently maintain a revolving line of credit pursuant to a loan agreement, dated as of August 18, 2015, by and among Houlihan Lokey, certain domestic subsidiaries of Houlihan Lokey party thereto and Bank of America, N.A., which provides for a revolving line of credit of \$75.0 million (the “Revolving Credit Facility”). As of September 30, 2018, there were no outstanding borrowings under the Revolving Credit Facility. Borrowings under the Revolving Credit Facility require payments of interest at the annual rate of LIBOR plus 1.00%. The loan agreement requires compliance with certain loan covenants including but not limited to the maintenance of minimum earnings before interest, taxes, depreciation and amortization of no less than \$120 million as of the end of any quarterly 12-month period and certain leverage ratios including a consolidated leverage ratio of less than 1.50 to 1.00 and a consolidated fixed charge coverage ratio of greater than 1.25 to 1.00, as of the end of any quarterly 12-month period. As of September 30, 2018, we were, and expect to continue to be, in compliance with such covenants. On July 28, 2017, we entered into a First Amendment to Credit Agreement which extended the maturity of the revolving line of credit from August 18, 2017 to August 18, 2019 and did not change any other material terms of the Revolving Credit Facility.

Cash Flows

Our operating cash flows are primarily influenced by the amount and timing of receipt of advisory fees and the payment of operating expenses, including payments of incentive compensation to our employees. We pay a significant portion of our incentive compensation during the first and third quarters of each fiscal year. A summary of our operating, investing, and financing cash flows is as follows:

| (\$ in thousands) | Six Months Ended September 30, | | Change |
|---|--------------------------------|------------|--------|
| | 2018 | 2017 | |
| Cash provided by (used in) | | | |
| Operating activities: | | | |
| Net income | \$ 69,803 | \$ 72,601 | (4)% |
| Non-cash charges | 33,236 | 29,111 | 14 % |
| Other operating activities | (87,182) | (33,993) | 156 % |
| Total operating activities | 15,857 | 67,719 | (77)% |
| Investing activities | 109,011 | (67,683) | (261)% |
| Financing activities | (185,384) | (250,408) | (26)% |
| Effects of exchange rate changes on cash, cash equivalents, and restricted cash | (11,742) | 3,042 | (486)% |
| Decrease in cash, cash equivalents, and restricted cash | (72,258) | (247,330) | NM |
| Cash, cash equivalents, and restricted cash—beginning of year | 300,223 | 492,686 | (39)% |
| Cash, cash equivalents, and restricted cash—end of year | \$ 227,965 | \$ 245,356 | (7)% |

Six Months Ended September 30, 2018

Operating activities resulted in a net inflow of \$15.9 million primarily attributable to strong performance across the Company, offset by reduced cash from other operating activities. Investing activities resulted in a net inflow of \$109.0 million primarily attributable to the maturity of investment securities. Financing activities resulted in a net outflow of \$185.4 million primarily related to dividends paid, other share repurchases, and the settlement of the January 2018 Forward Share Purchase Agreement.

Six Months Ended September 30, 2017

Operating activities resulted in a net inflow of \$67.7 million primarily attributable to (i) strong financial performance for the period driving increased net income, (ii) and a decrease in net uncollected accounts receivable. Investing activities resulted in a net outflow of \$67.7 million primarily attributable to purchases of investment securities. Financing activities resulted in a net outflow of \$250.4 million primarily related to dividends paid, shares retired under the stock repurchase program, and the settlement of the February 2017 Forward Share Purchase Agreement.

Contractual Obligations

The aggregate amount which we are obligated to pay under Operating Leases for our office space has increased from the amount as of March 31, 2018. At the end of our last fiscal year, the amount due was \$122.8 million and as of September 30, 2018, the amount due was \$154.6 million.

(\$ in thousands)

| | Payment Due by Period | | | | |
|--------------------------------------|-----------------------|---------------------|-----------------|-----------------|-------------------|
| | Total | Less than 1 Year | 1 to 3 Years | 3 to 5 Years | More than 5 Years |
| Operating Leases | \$ 154,584 | \$ 11,699 | \$ 49,097 | \$ 41,481 | \$ 52,307 |
| Loans payable to former shareholders | 2,642 | 595 | 1,229 | 481 | 337 |
| Loan payable to non-affiliates | 8,899 | — | — | — | 8,899 |
| Note payables | 21,793 | — | — | 18,173 | 3,620 |

Off-Balance Sheet Arrangements

We do not invest in any off-balance sheet vehicles that provide liquidity, capital resources, market or credit risk support, or engage in any activities that expose us to any liability that is not reflected in our consolidated financial statements except for certain stand-by letters of credit and bank guarantees in support of various office leases totaling approximately \$0.7 million.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements and related disclosures in conformity with 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 revenues and expenses during the reporting period. Actual results may differ from those estimates. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the period for which they are determined to be necessary.

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted the standard effective April 1, 2018 and under the new standard, we recognize revenue from contracts with customers upon satisfaction of our performance obligations by transferring the promised services to the customers. A service is transferred to a customer when the customer obtains control of and derives benefit from that service. Revenue from a performance obligation satisfied over time is recognized by measuring our progress in satisfying the performance obligation in a manner that depicts the transfer of the services to the customer.

Revenues from Corporate Finance engagements primarily consist of fees generated in connection with advisory services related to corporate finance, mergers and acquisitions and capital markets offerings. Advisory fees from these engagements are recognized at a point in time when the related transaction has been effectively closed. At this time, the Company has transferred control of the promised service and the customer obtains control. Corporate Finance contracts generally contain a variety of promised services that may be capable of being distinct, but they are not distinct within the context of the contract as the various services are inputs to the combined output of successfully brokering a specific transaction. Effective April 1, 2018, fees received prior to the completion of the transaction including retainers and progress fees are deferred within deferred income on the consolidated balance sheet and not recognized until the performance obligation is satisfied, or when the transaction is deemed by management to be terminated. Management's judgment is required in determining when a transaction is considered to be terminated.

Revenues from Financial Restructuring engagements primarily consist of fees generated in connection with advisory services to debtors, creditors and other parties-in-interest involving recapitalization or deleveraging transactions implemented both through bankruptcy proceedings and through out-of-court exchanges, consent solicitations or other mechanisms, as well as in distressed mergers and acquisition and capital market activities. Advisory fees from restructuring engagements are recognized over time using a time elapsed measure of progress as our clients simultaneously receive and consume the benefits of those services as they are provided.

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Revenues from Financial Advisory Services engagements primarily consist of fees generated in connection with valuation services and rendering fairness, solvency and financial opinions. Revenues are recognized at a point in time as these engagements include a singular objective that does not transfer any notable value to the Company's clients until the opinions have been rendered and delivered to the client. However, certain engagements consist of advisory services where fees are usually based on the hourly rates of our financial professionals. Such revenues are recognized over time as the benefits of these advisory services are transferred to the Company's clients throughout the course of the engagement and, as a practical expedient, the Company has elected to use the 'as-invoiced' approach to recognize revenue.

The Company adopted the new revenue recognition standard using the modified retrospective method that resulted in the Company prospectively changing the presentation of reimbursements of certain out-of-pocket expenses from a net presentation within non-compensation expenses to a gross basis in revenues.

There have been no other material changes to the critical accounting policies disclosed in our Annual Report on Form 10-K for the year ended March 31, 2018.

Recent Accounting Developments

For a discussion of recently issued accounting developments and their impact or potential impact on our consolidated financial statements, see "Note 2—Summary of Significant Accounting Policies" to our unaudited consolidated financial statements in this Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market Risk and Credit Risk

Our business is not capital intensive and we generally do not issue debt or invest in derivative instruments. As a result, we are not subject to significant market risk (including interest rate risk) or credit risk (except in relation to receivables). We maintain our cash and cash equivalents with financial institutions with high credit ratings. Although these deposits are generally not insured, management believes we are not exposed to significant credit risk due to the financial position of the depository institutions in which those deposits are held.

Our cash and cash equivalents are denominated in U.S. dollars, pound sterling, euros, Australian dollars, Hong Kong dollars, Chinese yuan, and Japanese yen and we face foreign currency risk in our cash balances and other assets and liabilities held in accounts outside the United States due to potential currency movements and the associated foreign currency translation accounting requirements.

Risks Related to Cash and Short Term Investments

Our cash is maintained in U.S. and non-U.S. bank accounts. We have exposure to foreign exchange risks through all of our international affiliates. However, we believe our cash is not subject to any material interest rate risk, equity price risk, credit risk or other market risk. Consistent with our past practice, we expect to maintain our cash in bank accounts or highly liquid securities.

Exchange Rate Risk

The exchange rate of the U.S. dollar relative to the currencies in the non-U.S. countries in which we operate may have an effect on the reported value of our non-U.S. dollar denominated or based assets and liabilities and, therefore, be reflected as a change in other comprehensive income. Our non-U.S. assets and liabilities that are sensitive to exchange rates consist primarily of trade payables and receivables, work in progress, and cash. The net impact of the fluctuation of foreign currencies in other comprehensive income within the consolidated statements of comprehensive income was \$(3,695) and \$2,692 during the three months ended September 30, 2018 and 2017, respectively, and \$(16,278) and \$7,753 during the six months ended September 30, 2018 and 2017, respectively.

In addition, the reported amounts of our revenues and expenses may be affected by movements in the rate of exchange between the currencies in the non-U.S. countries in which we operate and the United States dollar, affecting our operating results. We have analyzed our potential exposure to changes in the value of the U.S. dollar relative to the pound sterling and euro, the primary currencies of our European operations, by performing a sensitivity analysis on our net income, and determined that while our earnings are subject to fluctuations from changes in foreign currency rates, at this time we do not believe we face any material risk in this respect.

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From time to time, we enter into transactions to hedge our exposure to certain foreign currency fluctuations through the use of derivative instruments or other methods. In September 2018, we entered into foreign currency forward contracts between the euro and pound sterling with an aggregate notional value of approximately EUR 10.4 million and with a fair value representing a loss included in other operating expenses of \$14 during the three months ended September 30, 2018. In September 2017, we entered into a foreign currency forward contract between the euro and pound sterling with an aggregate notional value of approximately EUR 3.5 million and with a fair value representing a gain included in other operating expenses of \$139 during the three months ended September 30, 2017.

In summary, we have been impacted by changes in exchange rates and the potential impact of future currency fluctuation will increase as our international expansion continues. The magnitude of this impact will depend on the timing and volume of revenues and expenses of, and the amounts of assets and liabilities in, our foreign subsidiaries along with the timing of changes in the relative value of the U.S. dollar to the currencies of the non-U.S. countries in which we operate.

Credit Risk

We regularly review our accounts receivable and allowance for doubtful accounts by considering factors such as historical experience, credit quality, age of the accounts receivable and recoverable expense balances, and the current economic conditions that may affect a customer's ability to pay such amounts owed to us. We maintain an allowance for doubtful accounts that, in our opinion, provides for an adequate reserve to cover losses that may be incurred.

Item 4. Controls and Procedures

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating our disclosure controls and procedures, management, including the chief executive officer and chief financial officer, recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2018.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the evaluation of our internal control over financial reporting performed during the fiscal quarter ended September 30, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION**Item 1. Legal Proceedings**

From time to time, we may be subject to legal proceedings and claims in the ordinary course of business. There has been no material change in the nature of our legal proceedings from the descriptions contained in our Annual Report on Form 10-K for the fiscal year ended March 31, 2018.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the year ended March 31, 2018.

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

None.

Purchases of Equity Securities

The following table summarizes all of the repurchases of Houlihan Lokey, Inc. equity securities during the six months ended September 30, 2018:

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased and Retired As Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (1) |
|--|----------------------------------|------------------------------|--|--|
| April 1, 2018 - April 30, 2018 | — | \$ — | — | |
| May 1, 2018 - May 31, 2018 (2) | 35,841 | 49.44 | 35,841 | |
| June 1, 2018 - June 30, 2018 | 697,000 | 49.11 | 697,000 | |
| July 1, 2018 - July 31, 2018 | 101,600 | 48.68 | 101,600 | |
| August 1, 2018 - August 31, 2018 | 311,541 | 48.28 | 311,541 | |
| September 1, 2018 - September 30, 2018 | — | — | — | |
| Total | 1,145,982 | \$ 48.86 | 1,145,982 | \$ 80,639,797 |

1. On February 1, 2017, our board of directors approved a Class A common stock share repurchase program pursuant to which we may, from time to time, purchase shares of our Class A common stock having an aggregate purchase price of up to \$50.0 million in open market or negotiated transactions. In July 2018, the board of directors authorized the repurchase of up to an additional \$100 million of the Company's common stock. The shares of Class A common stock repurchased through this program have been retired.
2. Represents unvested shares of Class B common stock which were withheld from employees to satisfy tax withholding obligations resulting from the vesting of certain restricted stock awards.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

A list of exhibits is set forth on the Exhibit Index immediately following the signature page of this Quarterly Report on Form 10-Q, and is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HOULIHAN LOKEY, INC.

Date: November 6, 2018

/s/ SCOTT L. BEISER

Scott L. Beiser
Chief Executive Officer
(Principal Executive Officer)

Date: November 6, 2018

/s/ J. LINDSEY ALLEY

J. Lindsey Alley
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit Index

| Exhibit Number | Exhibit Description | Incorporated by Reference | | | | |
|----------------------|--|---------------------------|------------|---------|-------------|----------------------------|
| | | Form | File No. | Exhibit | Filing Date | Filed / Furnished Herewith |
| 3.1 | Amended and Restated Certificate of Incorporation of Houlihan Lokey, Inc., dated August 18, 2015 | 8-K | 333-205610 | 3.1 | 8/21/15 | |
| 3.2 | Amended and Restated Bylaws of the Company, dated August 18, 2015 | 8-K | 333-205610 | 3.2 | 8/21/15 | |
| 31.1 | Rule 13a-14(a) / 15d-14(a) Certification of Chief Executive Officer | | | | | * |
| 31.2 | Rule 13a-14(a) / 15d-14(a) Certification of Chief Financial Officer | | | | | * |
| 32.1 | Section 1350 Certification of Chief Executive Officer | | | | | ** |
| 32.2 | Section 1350 Certification of Chief Financial Officer | | | | | ** |
| 101.INS† | XBRL Instance Document | | | | | ** |
| 101.SCH† | XBRL Taxonomy Extension Schema Document | | | | | ** |
| 101.CAL† | XBRL Taxonomy Extension Calculation Linkbase Document | | | | | ** |
| 101.DEF† | XBRL Taxonomy Extension Definition Linkbase Document | | | | | ** |
| 101.LAB† | XBRL Taxonomy Extension Label Linkbase Document | | | | | ** |
| 101.PRE† | XBRL Taxonomy Extension Presentation Linkbase Document | | | | | ** |
| * | Filed herewith. | | | | | |
| ** | Furnished herewith. | | | | | |
| † | In accordance with Rule 406T of Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections | | | | | |
| ‡ | Indicates a management contract or compensation plan or arrangement. | | | | | |

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Section 2: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

CERTIFICATIONS

I, Scott L. Beiser, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ending September 30, 2018 of Houlihan Lokey, Inc. as filed with the Securities and Exchange Commission on the date hereof;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer 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 control 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 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.

Date: November 6, 2018

/s/ SCOTT L. BEISER

Scott L. Beiser

Chief Executive Officer

(Principal Executive Officer)

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Section 3: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

CERTIFICATIONS

I, J. Lindsey Alley, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ending September 30, 2018 of Houlihan Lokey, Inc. as filed with the Securities and Exchange Commission on the date hereof;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer 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 control 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 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.

Date: November 6, 2018

/s/ J. LINDSEY ALLEY

J. Lindsey Alley

Chief Financial Officer

(Principal Financial and Accounting Officer)

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Section 4: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

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

I, Scott L. Beiser, Chief Executive Officer and Director of Houlihan Lokey, Inc. (the "Company"), hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2018 (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.

Date: November 6, 2018

/s/ SCOTT L. BEISER

Scott L. Beiser

Chief Executive Officer

(Principal Executive Officer)

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Section 5: EX-32.2 (EXHIBIT 32.2)

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,**

**AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, J. Lindsey Alley, Chief Financial Officer of Houlihan Lokey, Inc. (the “Company”), hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2018 (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.

Date: November 6, 2018

/s/ J. LINDSEY ALLEY

J. Lindsey Alley

Chief Financial Officer

(Principal Financial and Accounting Officer)

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