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, 2019

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	**95-2770395**
(State or other jurisdiction of incorporation or organization)	**(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)

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

Title of Each Class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, par value $0.001	HLI	New York Stock Exchange

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, a smaller reporting company, or an emerging growth 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	☒	Accelerated filer	☐

Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of October 30, 2019, the registrant had 41,761,893 shares of Class A common stock, $0.001 par value per share, and 23,887,137 shares of Class B common stock, $0.001 par value per share, outstanding.

HOULIHAN LOKEY, INC. AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HOULIHAN LOKEY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(In thousands, except share data and par value)	September 30, 2019	March 31, 2019
Assets		
Cash and cash equivalents	$ 220,248	$ 285,746
Restricted cash	372	369
Investment securities	84,822	125,258
Accounts receivable, net of allowance for doubtful accounts of $3,962 and $4,255, respectively	64,814	70,830
Unbilled work in process, net of allowance for doubtful accounts of $1,413 and $1,341, respectively	62,722	71,891
Receivable from affiliates	—	8,631
Income taxes receivable	3,380	—
Deferred income taxes	6,539	2,854
Property and equipment, net	40,938	31,034
Operating lease right-of-use asset	131,776	—
Goodwill and other intangibles, net	797,564	794,604
Other assets	34,725	34,695
Total assets	$ 1,447,900	$ 1,425,912
Liabilities and Stockholders' Equity		
Liabilities:		
Accrued salaries and bonuses	$ 297,396	$ 404,717
Accounts payable and accrued expenses	40,911	55,048
Deferred income	29,709	27,812
Income taxes payable	—	7,759
Deferred income taxes	3,327	8,058
Loans payable to former shareholders	1,810	2,047
Loan payable to non-affiliate	6,458	6,610
Operating lease liabilities	151,669	—
Other liabilities	24,756	22,532
Total liabilities	556,036	534,583
Commitments and contingencies (Note 17)		
Stockholders' equity:		
Class A common stock, $0.001 par value. Authorized 1,000,000,000 shares; issued and outstanding 41,817,614 and 38,200,802 shares, respectively	42	38
Class B common stock, $0.001 par value. Authorized 1,000,000,000 shares; issued and outstanding 24,079,076 and 27,197,734 shares, respectively	24	27
Treasury stock, at cost: 252,306 and 0 shares, respectively	(11,219)	—
Additional paid-in capital	635,362	645,090
Retained earnings	311,360	276,468
Accumulated other comprehensive (loss)	(43,705)	(30,294)
Total stockholders' equity	891,864	891,329
Total liabilities and stockholders' equity	$ 1,447,900	$ 1,425,912

See accompanying Notes to Consolidated Financial Statements

HOULIHAN LOKEY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

(In thousands, except share and per share data)	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Six Months Ended September 30, 2019	Six Months Ended September 30, 2018
Revenues	$ 272,810	$ 274,992	$ 523,159	$ 494,994
Operating expenses:				
Employee compensation and benefits	174,638	175,321	337,949	314,501
Travel, meals, and entertainment	10,200	10,111	19,817	19,697
Rent	14,922	10,437	24,923	18,625
Depreciation and amortization	3,981	3,706	7,944	7,174
Information technology and communications	6,928	4,709	12,252	10,298
Professional fees	5,834	5,784	10,290	12,061
Other operating expenses	11,154	8,749	17,054	16,333
Total operating expenses	227,657	218,817	430,229	398,689
Operating income	45,153	56,175	92,930	96,305
Other (income)/expense, net	(1,101)	(1,007)	(2,748)	(2,613)
Income before provision for income taxes	46,254	57,182	95,678	98,918
Provision for income taxes	13,144	17,063	19,793	29,115
Net income	$ 33,110	$ 40,119	$ 75,885	$ 69,803
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	(9,440)	(3,695)	(13,411)	(16,278)
Comprehensive income	$ 23,670	$ 36,424	$ 62,474	$ 53,525
Attributable to Houlihan Lokey, Inc. common stockholders:				
Weighted average shares of common stock outstanding:				
Basic	62,477,085	62,258,919	62,292,798	62,620,017
Fully diluted	66,086,210	66,045,921	65,851,514	66,099,770
Earnings per share (Note 13)				
Basic	$ 0.53	$ 0.64	$ 1.22	$ 1.11
Fully diluted	$ 0.50	$ 0.61	$ 1.15	$ 1.06

See accompanying Notes to Consolidated Financial Statements

HOULIHAN LOKEY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)

(In thousands, except share data)	**Class A common stock**		**Class B common stock**		**Treasury Stock**					
	Shares	**$**	**Shares**	**$**	**Shares**	**$**	**Additional paid-in capital**	**Retained earnings**	**Accumulated other comprehensive loss**	**Total stockholders' equity**
Balances – July 1, 2019	40,913,727	$41	25,308,293	$25	(55,164)	$ (2,502)	$ 631,189	$298,831	$ (34,265)	$ 893,319
Shares issued	—	—	2,311	—	—	—	—	—	—	—
Stock compensation vesting (Note 14)	—	—	—	—	—	—	16,543	—	—	16,543
Class B shares sold	1,172,250	1	(1,172,250)	(1)	—	—	—	—	—	—
Dividends	—	—	—	—	—	—	—	(20,581)	—	(20,581)
Conversion of Class B to Class A shares	13,728	—	(13,728)	—	—	—	—	—	—	—
Shares issued to non-employee directors (Note 14)	—	—	—	—	—	—	—	—	—	—
Other shares repurchased/forfeited	(282,091)	—	(45,550)	—	(197,142)	(8,717)	(12,370)	—	—	(21,087)
Net income	—	—	—	—	—	—	—	33,110	—	33,110
Change in unrealized translation	—	—	—	—	—	—	—	—	(9,440)	(9,440)
Total comprehensive income	—	—	—	—	—	—	—	33,110	(9,440)	23,670
Balances – September 30, 2019	41,817,614	$42	24,079,076	$24	(252,306)	$(11,219)	$ 635,362	$311,360	$ (43,705)	$ 891,864

(In thousands, except share data)	**Class A common stock**		**Class B common stock**		**Treasury Stock**					
	Shares	**$**	**Shares**	**$**	**Shares**	**$**	**Additional paid-in capital**	**Retained earnings**	**Accumulated other comprehensive loss**	**Total stockholders' equity**
Balances – July 1, 2018	33,509,497	$34	32,678,476	$33	—	$—	$ 644,125	$201,702	$ (26,539)	$ 819,355
Cumulative effect of the change in accounting principle related to revenue recognition from contracts with clients, net of tax	—	—	—	—	—	—	—	(1,993)	—	(1,993)
Shares issued	—	—	5,326	(1)	—	—	984	—	—	983
Stock compensation vesting (Note 14)	—	—	—	—	—	—	11,034	—	—	11,034
Class B shares sold	195,840	—	(195,840)	—	—	—	—	—	—	—
Dividends	—	—	—	—	—	—	—	(17,506)	—	(17,506)
Secondary offering	—	—	—	—	—	—	—	—	—	—
Retired shares upon settlement of forward purchase agreement	—	—	—	—	—	—	—	—	—	—
Conversion of Class B to Class A shares	1,403,809	1	(1,403,809)	(1)	—	—	—	—	—	—
Shares issued to non-employee directors (Note 14)	—	—	—	—	—	—	187	—	—	187
Other shares repurchased/forfeited	(413,141)	—	(20,708)	—	—	—	(20,180)	—	—	(20,180)
Net income	—	—	—	—	—	—	—	40,121	—	40,121
Change in unrealized translation	—	—	—	—	—	—	—	—	(3,695)	(3,695)
Total comprehensive income	—	—	—	—	—	—	—	—	—	36,426
Balances – September 30, 2018	34,696,005	$35	31,063,445	$31	—	$—	$ 636,150	$222,324	$ (30,234)	$ 828,306

See accompanying Notes to Consolidated Financial Statements

HOULIHAN LOKEY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)

(In thousands, except share data)	Class A common stock		Class B common stock		Treasury Stock					
	Shares	$	Shares	$	Shares	$	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total stockholders' equity
Balances – April 1, 2019	38,200,802	$38	27,197,734	$27	—	$ —	$ 645,090	$276,468	$ (30,294)	$ 891,329
Shares issued	—	—	1,494,171	1	—	—	6,453	—	—	6,454
Stock compensation vesting (Note 14)	—	—	—	—	—	—	27,456	—	—	27,456
Class B shares sold	1,586,321	2	(1,586,321)	(1)	—	—	—	—	—	1
Dividends	—	—	—	—	—	—	—	(40,993)	—	(40,993)
Conversion of Class B to Class A shares	2,305,555	2	(2,305,555)	(2)	—	—	—	—	—	—
Shares issued to non-employee directors (Note 14)	7,027	—	—	—	—	—	—	—	—	—
Other shares repurchased/forfeited	(282,091)	—	(720,953)	(1)	(252,306)	(11,219)	(43,637)	—	—	(54,857)
Net income	—	—	—	—	—	—	—	75,885	—	75,885
Change in unrealized translation	—	—	—	—	—	—	—	—	(13,411)	(13,411)
Total comprehensive income	—	—	—	—	—	—	—	—	—	62,474
Balances – September 30, 2019	41,817,614	$42	24,079,076	$24	(252,306)	$(11,219)	$ 635,362	$311,360	$ (43,705)	$ 891,864

(In thousands, except share data)	Class A common stock		Class B common stock		Treasury Stock					
	Shares	$	Shares	$	Shares	$	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total stockholders' equity
Balances – April 1, 2018	30,604,405	$31	37,187,932	$37	(2,000,000)	$(93,500)	$ 753,077	$207,124	$ (13,956)	$ 852,813
Cumulative effect of the change in accounting principle related to revenue recognition from contracts with clients, net of tax	—	—	—	—	—	—	—	(19,680)	—	(19,680)
Shares issued	—	—	1,158,001	1	—	—	6,991	—	—	6,992
Stock compensation vesting (Note 14)	—	—	—	—	—	—	25,571	—	—	25,571
Class B shares sold	195,840	—	(195,840)	—	—	—	—	—	—	—
Dividends	—	—	—	—	—	—	—	(34,923)	—	(34,923)
Secondary offering	3,000,000	3	(3,000,000)	(3)	—	—	—	—	—	—
Retired shares upon settlement of forward purchase agreement	—	—	(2,000,000)	(2)	2,000,000	93,500	(93,498)	—	—	—
Conversion of Class 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	34,696,005	$35	31,063,445	$31	—	$ —	$ 636,150	$222,324	$ (30,234)	$ 828,306

See accompanying Notes to Consolidated Financial Statements

HOULIHAN LOKEY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(In thousands, except share data)	Six Months Ended September 30, 2019	Six Months Ended September 30, 2018
Cash flows from operating activities:		
Net income	$ 75,885	$ 69,803
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	(6,571)	(4,602)
Provision for bad debts	(128)	613
Unrealized gains on investment securities	(179)	—
Non-cash lease expense	6,576	—
Depreciation and amortization	7,944	7,174
Contingent consideration valuation	—	(708)
Compensation expenses – restricted share grants (Note 14)	31,109	30,759
Changes in operating assets and liabilities:		
Accounts receivable	6,619	27,550
Unbilled work in process	9,522	14,021
Other assets	(536)	(7,144)
Accrued salaries and bonuses	(107,940)	(114,099)
Accounts payable and accrued expenses and other	226	(832)
Deferred income	1,872	(4,485)
Income taxes payable	(11,256)	(2,193)
Net cash provided by operating activities	13,143	15,857
Cash flows from investing activities:		
Purchases of investment securities	(232,112)	(26,513)
Sales or maturities of investment securities	272,727	209,268
Acquisition of business, net of cash acquired	8,710	(71,407)
Receivables from affiliates	(170)	862
Purchase of property and equipment, net	(14,280)	(3,199)
Net cash provided by investing activities	34,875	109,011
Cash flows from financing activities:		
Dividends paid	(42,210)	(33,574)
Settlement of forward purchase contract	—	(93,500)
Other share repurchases	(23,503)	(54,233)
Payments to settle employee tax obligations on share-based awards	(31,354)	(1,947)
Earnouts paid	—	(1,923)
Loans payable to former shareholders redeemed	(237)	(394)
Repayments of loans to non-affiliates	(8,397)	—
Other financing activities	—	187
Net cash (used in) financing activities	(105,701)	(185,384)
Effects of exchange rate changes on cash, cash equivalents, and restricted cash	(7,812)	(11,742)
(Decrease) in cash, cash equivalents, and restricted cash	(65,495)	(72,258)
Cash, cash equivalents, and restricted cash – beginning of period	286,115	300,223
Cash, cash equivalents, and restricted cash – end of period	$ 220,620	$ 227,965
Supplemental disclosures of non-cash activities:		
Shares issued via vesting of liability classified awards	$ 6,453	$ —
Fully amortized intangibles written off	—	8,272
Cash acquired through acquisitions	$ 10,506	$ 16,141
Cash paid during the period:		
Interest	$ 475	$ 432
Taxes	42,587	40,450

See accompanying Notes to Consolidated Financial Statements

Note 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 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.

- HL Finance, LLC ("HL Finance"), a syndicated leveraged finance platform established to arrange senior secured leveraged loans for financial sponsor-backed, privately-held, and public corporate entities. HL Finance acts as an arranger on syndicated loan transactions and has entered into an agreement with a third party as the initial strategic investor.

- 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. Expenses related to the corporate reorganization and IPO recorded in the Consolidated Statements of Comprehensive Income include the following:

- $3,491 and $3,549 of compensation expenses associated with the amortization of restricted stock granted in connection with the IPO during the three months ended September 30, 2019 and 2018, respectively, and $7,051 and $6,872 during the six months ended September 30, 2019 and 2018, 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

- $2,473 and $2,653 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, 2019 and 2018, respectively, and $5,025 and $5,406 during the six months ended September 30, 2019 and 2018, 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.

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.

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.

In June 2019, the Company exercised its option to acquire the remaining 51% of the shares of Lara (Italy Holdco) Limited ("Lara"). Lara's only operating subsidiary, Houlihan Lokey S.p.A., is an Italian-based company that provides corporate finance advisory services.

The Company offers financial services and financial advice to a broad clientele located throughout the United States of America ("U.S."), Europe, and the Middle East and Asia-Pacific regions. 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 ("CF") 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 CF revenues consists of fees paid upon the successful completion of the transaction or engagement ("Completion Fees"). A CF 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 ("FR") provides advice to debtors, creditors and other parties-in-interest in connection with recapitalization/deleveraging transactions implemented both through bankruptcy proceedings and though 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 FR 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 FR 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 Retainer Fees and/or Progress Fees.

- Financial Advisory Services ("FAS") 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 FAS 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 FAS business segment provides dispute resolution services to clients where fees are usually based on the hourly rates of our financial professionals. Unlike our CF or FR segments, the fees generated in our FAS segment are generally not contingent on the successful completion of a transaction.

Note 2 — Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the U.S. ("GAAP"), pursuant to the rules and regulations of the U.S. 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, 2019 are not necessarily indicative of the results of operations to be expected for the fiscal year ending March 31, 2020. 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 fiscal year ended March 31, 2019 (the "2019 Annual Report").

Certain reclassifications have been made to prior year financial statements to conform to classifications used in the current year. These reclassifications had no impact on net income, shareholder’s equity or cash flows as previously reported.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries where it has a controlling financial interest. All 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)/expense, net in the Consolidated Statements of Comprehensive Income.

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, but are not limited to: 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.

Revenues

Revenues consist of fee revenues from advisory services and reimbursed costs incurred in fulfilling the contract. Revenues reflect fees generated from our CF, FR, and FAS business segments. See Note 3 for additional information.

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 types of operating expenses include: Travel, meals, and entertainment; Rent; Depreciation and amortization; Information technology and communications; Professional fees; and Other operating expenses.

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 fiscal 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 the quarter ended September 30, 2019, we entered into a foreign currency forward contract between the pound sterling and the U.S. dollar with an aggregate notional value of $4.8 million. In the quarter ended September 30, 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. The fair value of these contracts represented a loss included in Other operating expenses of $53 and $14 during the three months ended September 30, 2019 and 2018, respectively.

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, 2019 and March 31, 2019, the Company had cash balances with banks in excess of insured limits. The Company believes it is not exposed to any significant credit risk with respect to Cash and cash equivalents.

(In thousands, except share data or as otherwise stated)

The following table provides a reconciliation of Cash and 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, 2019	March 31, 2019
Cash and cash equivalents	$ 220,248	$ 285,746
Restricted cash (1)	372	369
Total cash, cash equivalents, and restricted cash	$ 220,620	$ 286,115

(1) Restricted cash as of September 30, 2019 and March 31, 2019 consisted of a cash secured letter of credit issued for our Frankfurt office.

Recent Accounting Pronouncements

The Financial Accounting Standards Board (the "FASB") issued the following authoritative guidance amending the FASB Accounting Standards Codification ("ASC").

On April 1, 2019, we adopted Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*, and all related amendments. See Note 16 for additional information.

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 Company adopted guidance effective April 1, 2019 and its application did not have a material impact on the consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13 *Financial Instruments-Credit Losses - Measurement of Credit Losses on Financial Instruments.* The amended guidance involves several aspects of the accounting for credit losses related to certain financial assets that are not accounted for at fair value through net income and includes trade receivables and net investments in leases. The new guidance, and subsequent updates, broadens the information that an entity must consider in developing its estimated credit losses expected to occur over the remaining life of assets measured either collectively or individually to include historical experience, current conditions and reasonable and supportable forecasts, replacing the existing incurred credit loss model and other models with the Current Expected Credit Losses ("CECL") model. The new guidance expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating credit losses and requires new disclosures of the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. This new guidance is first effective for our fiscal year beginning on April 1, 2020 and will be adopted under a modified retrospective approach. We are evaluating the impact the adoption of this new guidance will have on our financial position and results of operations, which will depend on, among other things, the current and expected macroeconomic conditions and the nature and characteristics of financial assets held by us on the date of adoption.

In 2019, the following ASU became effective, but there was no quantitative or qualitative effect on our financial statements:

- ASU 2019-01, *Leases - Topic 842: Codification Improvements.*

Note 3 — Revenue Recognition

The Company generates revenues from contractual advisory services and reimbursed costs incurred in fulfilling those contracts. Revenues for all three business segments (CF, FR, and FAS) are recognized upon satisfaction of the performance obligation, which 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.

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 fees (i.e., Completion Fees) are considered variable and constrained as they are contingent upon future events, which include factors outside of our control (e.g., completion of a transaction or third party emergence from bankruptcy or approval by the court).

Revenues from CF engagements primarily consist of fees generated in connection with advisory services related to corporate finance, mergers and acquisitions, and capital markets offerings. 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. CF 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.

Revenues from FR 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 FAS engagements primarily consist of fees generated in connection with valuation and diligence services and rendering fairness, solvency and other 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.

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.

Disaggregation of Revenues

The Company has disclosed disaggregated revenues based on its business segment and geographical area, which provides a reasonable representation of how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. See Note 18 for additional information.

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.

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 revenues for the corresponding contract. As the Company changed 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.

(In thousands, except share data or as otherwise stated)

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:

	April 1, 2019	Increase/(Decrease)	September 30, 2019
Receivables [1]	$ 64,797	$ (6,620)	$ 58,177
Unbilled work in process, net of allowance for doubtful accounts	71,891	(9,169)	62,722
Contract Assets [1]	6,033	604	6,637
Contract Liabilities [2]	27,812	1,897	29,709

(1) Included within Accounts receivable, net of allowance for doubtful accounts in the September 30, 2019 Consolidated Balance Sheets.
(2) Included within Deferred income in the September 30, 2019 Consolidated Balance Sheets.

During the three and six months ended September 30, 2019, $5.4 million and $14.4 million of revenues, respectively, were recognized that were included in the Deferred income balance at the beginning of the period.

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, 2019.

Note 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 $598 and $6,147 during the three months ended September 30, 2019 and 2018, respectively, and $698 and $8,495 for the six months ended September 30, 2019 and 2018, respectively.

The Company provided certain management and administrative services for the Company's unconsolidated entities and received fees for these services. As a result, the Company received net fees of $0 and $224 during the three months ended September 30, 2019 and 2018, respectively, and $126 and $224 during the six months ended September 30, 2019, respectively.

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"). 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. 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.

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 price per share of $49.11.

On May 30, 2019, pursuant to a registered underwritten public offering, ORIX USA sold 3,000,000 shares of our Class A common stock to the public at a price of $45.80.

(In thousands, except share data or as otherwise stated)

On August 1, 2019, pursuant to a registered underwritten public offering, ORIX USA sold its remaining ownership of 3,377,935 shares of our Class A common stock to the public for net proceeds of approximately $154.1 million before expenses.

In the accompanying Consolidated Balance Sheets, the Company carried accounts receivable and unbilled work in progress from related parties totaling approximately $16 and $3 as of September 30, 2019 and March 31, 2019, respectively. The Company also deferred income from related parties for service fees totaling $0 and $34 as of September 30, 2019 and March 31, 2019, respectively.

Other assets in the accompanying Consolidated Balance Sheets includes loans receivable from certain employees of $14,135 and $15,228 as of September 30, 2019, and March 31, 2019, respectively.

Note 5 — Fair Value Measurements

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 upon the best information available and may incorporate management's own assumptions or involve a significant degree of judgment.

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

- 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, 2019			
	Level I	Level II	Level III	Total
Corporate debt securities	$ —	$ 31,457	$ —	$ 31,457
U.S. treasury securities	—	53,365	—	53,365
Total asset measured at fair value	$ —	$ 84,822	$ —	$ 84,822

	March 31, 2019			
	Level I	Level II	Level III	Total
Corporate debt securities	$ —	$ 116,577	$ —	$ 116,577
U.S. treasury securities	—	8,681	—	8,681
Total asset measured at fair value	$ —	$ 125,258	$ —	$ 125,258

(In thousands, except share data or as otherwise stated)

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, 2019.

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 accrued expenses, 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, Loans payable to former shareholders and an unsecured loan which is included in Loan payable to non-affiliate, approximates fair value due to the variable interest rate borne by those instruments.

Note 6 — Investment Securities

Investment securities consist of corporate debt and U.S. Treasury securities with original maturities over 90 days. The Company classifies its investment securities as held for trading and measures them at fair value in the Consolidated Balance Sheets. Unrealized holding gains and losses for trading securities are included in Other operating expenses in the accompanying Consolidated Statements of Comprehensive Income.

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

	September 30, 2019			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized (Losses)**	**Fair Value**
Corporate debt securities	$ 31,124	$ 339	$ (6)	$ 31,457
U.S. treasury securities	53,089	284	(8)	53,365
Total securities with unrealized gains	$ 84,213	$ 623	$ (14)	$ 84,822

	March 31, 2019			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized (Losses)**	**Fair Value**
Corporate debt securities	$ 116,220	$ 372	$ (15)	$ 116,577
U.S. treasury securities	8,608	73	—	8,681
Total securities with unrealized gains	$ 124,828	$ 445	$ (15)	$ 125,258

(In thousands, except share data or as otherwise stated)

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

	September 30, 2019		March 31, 2019	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due within one year	$ 57,280	$ 57,307	$ 96,109	$ 96,175
Due within years two through five	26,933	27,515	28,719	29,083
Total debt within the investment securities portfolio	$ 84,213	$ 84,822	$ 124,828	$ 125,258

Note 7 — Allowance for Doubtful Accounts

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 in the accompanying Consolidated Statements of Comprehensive Income. Amounts deemed to be uncollectible are written off against the allowance for doubtful accounts.

	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
Beginning balance	$ 5,730	$ 11,027	$ 5,596	$ 11,391
Provision for bad debt	(107)	229	(128)	613
Recovery/(write-off) of uncollectible accounts	(248)	245	(93)	(503)
Ending balance	$ 5,375	$ 11,501	$ 5,375	$ 11,501

Note 8 — 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 recognized on a straight-line basis over the estimated useful lives of the respective assets. Leasehold improvements are recorded as prepaid assets and included within fixed lease payments. See Note 16 for additional information.

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

	September 30, 2019	March 31, 2019
Equipment	$ 8,226	$ 7,916
Furniture and fixtures	21,478	19,445
Leasehold improvements	41,678	34,370
Computers and software	16,051	11,499
Other	1,113	1,117
Total cost	88,546	74,347
Less: accumulated depreciation	(47,608)	(43,313)
Total net book value	$ 40,938	$ 31,034

Additions to property and equipment during the six months ended September 30, 2019 were primarily related to leasehold improvement costs incurred and computer and software purchases.

Depreciation expense of approximately $2,268 and $2,117 was recognized during the three months ended September 30, 2019 and 2018, respectively, and $4,678 and $4,264 was recognized during the six months ended September 30, 2019 and 2018, respectively.

(In thousands, except share data or as otherwise stated)

Note 9 — Goodwill and Other 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.

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, 2019, 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.

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, 2019, 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, 2019, no events or changes in circumstances were identified that indicated that the carrying amount of the finite-lived intangible assets were not recoverable.

The following table provides a reconciliation of Goodwill and other intangibles, net reported on the Consolidated Balance Sheets.

	Useful Lives	September 30, 2019	March 31, 2019
Goodwill (1)	Indefinite	$ 600,578	$ 594,812
Tradename-Houlihan Lokey (1)	Indefinite	192,210	192,210
Other intangible assets	Varies	16,660	18,614
Total cost		809,448	805,636
Less: accumulated amortization		(11,884)	(11,032)
Goodwill and other intangibles, net		$ 797,564	$ 794,604
Deferred tax liability (1)		(51,676)	(51,676)
Total net book value, after taxes		$ 745,888	$ 742,928

(1) 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 $207,978, inclusive of foreign currency translations, has been recognized.

(In thousands, except share data or as otherwise stated)

Amortization expense of approximately $1,713 and $1,589 was recognized for the three months ended September 30, 2019 and 2018, respectively, and $3,266 and $2,910 was recognized for the six months ended September 30, 2019 and 2018, respectively.
The estimated future amortization for amortizable intangible assets for each of the next five years are as follows:

	Year Ended March 31,
Remainder of 2020	$ 3,431
2021	773
2022	157
2023	7
2024	7

Note 10 — Loans Payable

In August 2015, the Company entered into a revolving line of credit with Bank of America, N.A. (the "2015 Line of Credit"), which allowed 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 2015 Line of Credit to August 18, 2019, and, on August 15, 2019, the parties further extended the maturity date of the 2015 Line of Credit to September 18, 2019 (or if such date is not a business day, the immediately preceding business day). On August 23, 2019, the Company refinanced the 2015 Line of Credit by entering into a new syndicated revolving line of credit with Bank of America, N.A. and certain other financial institutions party thereto (the "2019 Line of Credit"), which allows for borrowings of up to $100.0 million (and, subject to certain conditions, provides the Company with an expansion option, which, if exercised in full, would provide for a total credit facility of $200 million) and matures on August 23, 2022 (or if such date is not a business day, the immediately preceding business day). The agreement governing the 2019 Line of Credit 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, 2019, no principal was outstanding under the 2019 Line of Credit. The Company paid unused commitment fees under the 2015 Line of Credit and the 2019 Line of Credit of $90 and $57 for the three months ended September 30, 2019 and 2018, respectively, and $124 and $114 for the six months ended September 30, 2019 and 2018, respectively.

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 average interest rate on the individual notes was 3.47% and 3.57% as of September 30, 2019 and 2018, respectively, and the maturity dates range from 2019 to 2027. The Company incurred interest expense on these notes of $17 and $25 during the three months ended September 30, 2019 and 2018, respectively, and $37 and $50 during the six months ended September 30, 2019 and 2018, respectively.

An acquisition made in January 2015 included non-contingent consideration with a carrying value of $226 as of each of September 30, 2019 and March 31, 2019, which is included in Other liabilities in the accompanying Consolidated Balance Sheets.

In November 2015, the Company acquired the investment banking operations of Leonardo & Co. NV ("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 million payable on November 16, 2040, the remaining balance of which is included in Loan payable to non-affiliates on our Consolidated Balance Sheets. The loan bears interest at an annual rate of 1.50%. In each of January 2017, December 2017 and December 2018, we paid a portion of this loan in the amount of EUR 2.9 million. The company incurred interest expense on this loan of $23 and $37 during the three months ended September 30, 2019 and 2018, respectively, and $47 and $74 for the six months ended September 30, 2019 and 2018, respectively.

As described in Note 1, the Company acquired the remaining 51% of Leonardo's Italy operations in June 2019. During the quarter ended September 30, 2019, the Company completed the redemption of the loans that were assumed upon consolidation of Leonardo's Italy operations that had been included in the Loan payable to non-affiliates on our Consolidated Balance Sheets.

An acquisition made in January 2017 included non-contingent consideration with a carrying value of $1,974 and $1,983 as of September 30, 2019 and March 31, 2019, respectively, which is included in Other liabilities in the accompanying Consolidated Balance Sheets.

(In thousands, except share data or as otherwise stated)

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 for the three months ended September 30, 2019 and 2018, and $129 and $201 for the six months ended September 30, 2019 and 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. The Company incurred interest expense on these notes of $26 for the three months ended September 30, 2019 and 2018, and $53 and $35 during the six months ended September 30, 2019 and 2018, respectively.

The scheduled aggregate repayments of our Loans payable to former shareholders, Other liabilities, and the Loan payable to non-affiliates in the accompanying Consolidated Balance Sheets are as follows:

	Year Ended March 31,
Remaining 2020	$ 458
2021	2,446
2022	279
2023	16,789
2024	338
2025 and thereafter	12,714
Total	$ 33,024

Note 11 — Accumulated Other Comprehensive (Loss)

Accumulated other comprehensive (loss) is comprised of foreign currency translation adjustments of $(9,440) and $(3,695) for the three months ended September 30, 2019 and 2018, respectively and $(13,411) and $(16,278) for the six months ended September 30, 2019 and 2018, 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 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, 2019 was comprised of the following:

Balance, April 1, 2019	$ (30,294)
Foreign currency translation adjustment	(13,411)
Balance, September 30, 2019	$ (43,705)

Note 12 — 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 year 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 ASC Topic 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.

(In thousands, except share data or as otherwise stated)

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.

The Global Intangible Low-Taxed Income tax ("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 GILTI inclusion. The Company has elected to account for the tax impacts of the GILTI inclusion as a period cost.

The Company's provision for income taxes was $13,144 and $17,063 for the three months ended September 30, 2019 and 2018, respectively, and $19,793 and $29,115 for the six months ended September 30, 2019 and 2018, respectively. This represents effective tax rates of 28.4% and 29.8% for the three months ended September 30, 2019 and 2018, respectively, and 20.7% and 29.4% and for the six months ended September 30, 2019 and 2018, respectively.

The decrease in the Company's tax rate during the six months ended September 30, 2019 relative to the same period in 2018 was primarily a result of the vesting of stock that occurred in April and May 2019. The primary drivers of the Company's effective tax rate being higher than the U.S. federal statutory rate of 21% for the three months ended September 30, 2019 were the provision for state taxes, the GILTI inclusion, limits on the deductibility of executive compensation under IRC Section 162(m) and limits on the deductibility of certain meal and entertainment expense items.

Note 13 — Earnings Per Share

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Numerator:				
Net income attributable to holders of shares of common stock—basic	$ 33,110	$ 40,119	$ 75,885	$ 69,803
Net income attributable to holders of shares of common stock—diluted	$ 33,110	$ 40,119	$ 75,885	$ 69,803
Denominator:				
Weighted average shares of common stock outstanding—basic	62,477,085	62,258,919	62,292,798	62,620,017
Weighted average number of incremental shares issuable from unvested restricted stock and restricted stock units, as calculated using the treasury stock method	3,609,125	3,787,002	3,558,716	3,479,753
Weighted average shares of common stock outstanding—diluted	66,086,210	66,045,921	65,851,514	66,099,770
Basic earnings per share	$ 0.53	$ 0.64	$ 1.22	$ 1.11
Diluted earnings per share	$ 0.50	$ 0.61	$ 1.15	$ 1.06

(In thousands, except share data or as otherwise stated)

Note 14 — Employee Benefit Plans

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 $930 and $541 during the three months ended September 30, 2019 and 2018, respectively, and $1,709 and $1,309 during the six months ended September 30, 2019 and 2018, respectively, to these defined contribution plans.

Share-Based Incentive Plans

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 37,847 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, (iv) three independent directors in the first quarters of fiscal 2018 and 2019 at $33.54 and $44.50 per share, respectively, (v) one independent director in the third quarter of fiscal 2019 at $42.41 per share, and (vi) four independent directors in the first quarter of fiscal 2020 at $47.22 per share.

No excess tax benefit was recognized during the three months ended September 30, 2019 or 2018 and an excess tax benefit of $7,605 was recognized during the six months ended September 30, 2019 as a component of the provision for income taxes and an operating activity on the Consolidated Statements of Cash Flows, with no such benefit for the six months ended September 30, 2018. The excess tax benefit recognized in the first quarter of fiscal 2020 was related to shares vested in April and May 2019. For the comparable fiscal 2019 period, vesting of shares scheduled to vest in April and May 2018 was accelerated on October 21, 2017 and the corresponding excess tax benefit was recognized in the fiscal year ended March 31, 2018. The Company recorded cash outflows of $(31,354) and $(1,947) 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 months ended September 30, 2019 and 2018, 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 liabilities 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 Company's 2006 Incentive Award Plan (the "2006 Incentive Plan") and the 2016 Incentive Plan during the six months ended September 30, 2019 and 2018 is as follows:

Unvested Share Awards	Shares	Weighted Average Grant Date Fair Value
Balance, April 1, 2019	3,763,984	$ 32.29
Granted	1,359,801	47.20
Vested	(1,493,217)	29.20
Forfeited/Repurchased	(59,770)	36.48
Balance, September 30, 2019	3,570,798	$ 39.15
Balance, 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, September 30, 2018	3,790,887	$ 32.29

(In thousands, except share data or as otherwise stated)

Activity in liability classified share awards during the six months ended September 30, 2019 and 2018 is as follows:

Awards Settleable in Shares	**Fair Value**
Balance, April 1, 2019	$ 21,676
Offer to grant	6,090
Share price determined-converted to cash payments	(52)
Share price determined-transferred to equity grants	(6,457)
Forfeited	—
Balance, September 30, 2019	$ 21,257
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	$ 21,446

Compensation expenses for the Company associated with both equity and liability classified awards totaled $18,347 and $14,621 for the three months ended September 30, 2019 and 2018, respectively, and $31,109 and $30,759 for the six months ended September 30, 2019 and 2018, respectively.

As of September 30, 2019, there was $10,615 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 1.44 years.

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.

Note 15 — Stockholders' Equity

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 described in Note 4 above, in the March 2018 Follow-on 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.

In connection with, and prior to, the March 2018 Follow-on Offering, on January 26, 2018, we entered into the January 2018 Forward Share Purchase Agreement, 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 were 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 provided for the refund of any dividends paid during the term on the underlying Class A common stock, such shares were not classified as participating securities and the Company did not apply the two-class method for calculating its earnings per share.

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 price per share of $49.11.

On May 30, 2019, pursuant to a registered underwritten public offering, ORIX USA sold 3,000,000 shares of our Class A common stock to the public at a price of $45.80.

On August 1, 2019, pursuant to a registered underwritten public offering, ORIX USA sold its remaining ownership of 3,377,935 shares of our Class A common stock to the public for net proceeds of approximately $154.1 million before expenses.

Class A common stock

During the six months ended September 30, 2019, 7,027 shares were issued to non-employee directors, and 3,891,876 shares were converted from Class B to Class A. 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. As of September 30, 2019, there were 41,503,341 Class A shares held by the public and 61,967 Class A shares held by non-employee directors.

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. As of September 30, 2019, there were 24,079,076 Class B shares held by the HL Voting Trust.

Dividends

Previously declared dividends related to unvested shares of $6,670 and $6,028 were unpaid as of September 30, 2019 and 2018, respectively.

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.

Share repurchases

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 an additional $100 million of the Company's common stock.

During the three months ended September 30, 2019 and 2018, the Company repurchased 862 and 0 shares, respectively, of Class B common stock, to satisfy $39 and $0 of required withholding taxes in connection with the vesting of restricted awards, respectively. During the three months ended September 30, 2019 and 2018, the Company repurchased an additional 479,233 and 413,141 shares of its outstanding common stock, respectively, at a weighted average price of $43.79 and $48.38 per share, excluding commissions, for an aggregate purchase price of $20,987 and $19,988, respectively.

During the six months ended September 30, 2019 and 2018, the Company repurchased 609,593 and 80 shares, respectively, of Class B common stock, to satisfy $29,284 and $4 of required withholding taxes in connection with the vesting of restricted awards, respectively. During the six months ended September 30, 2019 and 2018, the Company repurchased an additional 534,397 and 1,110,141 shares of its outstanding common stock, respectively, at a weighted average price of $43.95 and $48.84 per share, excluding commissions, for an aggregate purchase price of $23,487 and $54,217, respectively.

Note 16 — Leases

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. We adopted the standard effective April 1, 2019, using the modified retrospective approach applied as of the beginning of the period of adoption. The Company elected to utilize transition guidance within the new standard that permits us to (i) continue to report under ASC 840 guidance for comparative periods consistent with previously issued financial statements; and (ii) carryforward our prior conclusions about lease identification, classification, and initial direct costs. The most significant impact of this adoption relates to the recognition of right-of-use ("ROU") assets and liabilities for all leases classified operating leases when the Company is the lessee in the arrangement. Currently, the Company does not have any lessor arrangements; therefore, adoption of the standard did not impact our accounting.

We assess whether an arrangement is or contains a lease at the inception of the agreement. ROU assets represent our right to use underlying assets for the lease term and lease liabilities represent our obligation to make lease payments arising from leases. ROU assets and lease liabilities are recognized at the commencement date based on the present value of future lease payments over the lease terms utilizing the discount rate implicit in the leases. If the discount rate implicit in the leases is not readily determinable, the present value of future lease payments is calculated utilizing the Company’s incremental borrowing rate, which approximates the interest that the Company would have to pay on a secured loan. The Company elected to utilize a portfolio approach and applies the rates to a portfolio of leases with similar terms and economic environments. The terms of our leases used to determine the ROU asset and lease liability account for options to extend when it is reasonably certain that we will exercise those options, if applicable. ROU assets and lease liabilities are subject to adjustment in the event of modification to lease terms, changes in probability that an option to extend or terminate a lease would be exercised and other factors. In addition, ROU assets are periodically reviewed for impairment.

Lease expense is recognized on a straight-line basis over the lease terms. Lease expense includes amortization of the ROU assets and accretion of the lease liabilities. Amortization of ROU assets is calculated as the periodic lease cost less accretion of the lease liability. The amortized period for ROU assets is limited to the expected lease term.

The Company has elected a practical expedient to combine the lease and non-lease components into a single lease component. The Company also elected the short-term lease measurement and recognition exemption and does not establish ROU assets or lease liabilities for operating leases with terms of 12 months or less.

On adoption, the Company recognized the present value of its existing minimum lease payments as a $136.9 million ROU asset and a $152.3 million lease liability. The difference between the ROU asset and the lease liability on adoption primarily arises from previously recorded deferred rent, which was effectively reclassified to the ROU asset on adoption. As a result, there was no impact to retained earnings in the Consolidated Balance Sheets.

Lessee Arrangements

Operating Leases

We lease real estate and equipment used in operations from third parties. As of September 30, 2019, the remaining term of our operating leases ranged from 1 to 17 years with various automatic extensions.

The following table outlines the maturity of our existing operating lease liabilities on a fiscal year-end basis as of September 30, 2019.

HOULIHAN LOKEY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(In thousands, except share data or as otherwise stated)

	Operating Leases
Remaining 2020	$ 13,918
2021	27,356
2022	23,168
2023	19,190
2024	14,395
Thereafter	85,407
Total	183,434
Less: present value discount	(31,765)
Operating lease liabilities	$ 151,669

Lease costs

	Three Months Ended September 30,	Six Months Ended September 30,
Operating lease expense	$ 8,934	$ 15,263
Variable lease expense (1)	6,026	9,676
Short-term lease expense	10	81
Less: Sublease income	(48)	(97)
Total lease costs	$ 14,922	$ 24,923

(1) Primarily consists of payments for property taxes, common area maintenance and usage based operating costs.

Weighted-average details

	September 30, 2019
Weighted-average remaining lease term (years)	9
Weighted-average discount rate	4.1%

Supplemental cash flow information related to leases:

	Six Months Ended September 30,
Operating cash flows:	
Cash paid for amounts included in the measurement of Operating lease liabilities	$ 11,588
Non-cash activity:	
Change in operating right-of-use assets due to remeasurement	$ 5,883

Note 17 — 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.

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, 2019 or March 31, 2019.

(In thousands, except share data or as otherwise stated)

There have been no material changes outside of the ordinary course of business to our known contractual obligations, which are set forth in the table included in Item 7 in our 2019 Annual Report.

Note 18 — 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, 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 capital, 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,	
	2019	2018	2019	2018
Revenues by segment				
Corporate Finance	$ 155,981	$ 146,057	$ 289,570	$ 278,928
Financial Restructuring	77,276	92,684	156,630	143,160
Financial Advisory Services	39,553	36,251	76,959	72,906
Revenues	$ 272,810	$ 274,992	$ 523,159	$ 494,994
Segment profit [(1)]				
Corporate Finance	$ 42,688	$ 43,803	$ 80,116	$ 83,899
Financial Restructuring	23,588	29,449	47,565	41,803
Financial Advisory Services	8,940	6,671	17,221	14,086
Total segment profit	75,216	79,923	144,902	139,788
Corporate expenses [(2)]	30,063	23,748	51,972	43,483
Other (income)/expense, net	(1,101)	(1,007)	(2,748)	(2,613)
Income before provision for income taxes	$ 46,254	$ 57,182	$ 95,678	$ 98,918

(1) 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 revenues are accrued. Segment profit may vary significantly between periods depending on the levels of collaboration among the different segments.
(2) Corporate expenses represent expenses that are not allocated to individual business segments such as office of the executives, accounting, information technology, compliance, legal, marketing, and human capital.

	September 30, 2019	March 31, 2019
Assets by segment		
Corporate Finance	$ 387,583	$ 397,069
Financial Restructuring	186,983	184,364
Financial Advisory Services	124,310	127,021
Total segment assets	698,876	708,454
Corporate assets	749,024	717,458
Total assets	$ 1,447,900	$ 1,425,912

HOULIHAN LOKEY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(In thousands, except share data or as otherwise stated)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
Revenues by geography				
United States	$ 237,932	$ 231,044	$ 446,437	$ 414,286
International	34,878	43,948	76,722	80,708
Total revenues	$ 272,810	$ 274,992	$ 523,159	$ 494,994

	September 30, 2019	March 31, 2019
Assets by geography		
United States	$ 978,642	$ 1,021,975
International	469,258	403,937
Total assets	$ 1,447,900	$ 1,425,912

Note 19 — Subsequent Events

On October 17, 2019, the Company's board of directors declared a quarterly cash dividend of $0.31 per share of Class A and Class B common stock, payable on December 16, 2019 to shareholders of record on December 5, 2019.

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, 2019 (the "2019 Annual Report"). 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 and Note 3 for additional information). 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”).

CF 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 CF revenues consists of Completion Fees. CF transactions 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.

FR provides advice to debtors, creditors and other parties-in-interest in connection with recapitalization/deleveraging transactions implemented both through bankruptcy proceedings and though 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 FR 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 FR 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 Retainer Fees and/or Progress Fees.

FAS 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 FAS 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 FAS business segment provides dispute resolution services to clients where fees are usually based on the hourly rates of our financial professionals. Unlike our CF or FR segments, the fees generated in our FAS segment are generally not contingent on the successful completion of a transaction.

Operating Expenses

Our operating expenses are classified as employee compensation and benefits expense and non-compensation expense; revenue and headcount are the primary drivers of our operating expenses. Reimbursements of certain out-of-pocket deal expenses are recorded on a gross basis and are therefore included in both Revenues and Operating expenses on the Consolidated Statements of Comprehensive Income.

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 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 fiscal quarter of each year with respect to prior year performance. Generally, a portion of the cash bonus is 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."

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 fluctuates in response to changes in headcount.

Other (Income)/Expense, net

Other (income)/expense, net includes (i) interest income earned on non-marketable and investment securities, Cash and cash equivalents, loans receivable from affiliates, employee loans, and commercial paper, (ii) interest expense and fees on our 2015 Line of Credit or 2019 Line of Credit (each defined herein), (iii) interest expense on the loan payable to affiliate, Loans payable to former shareholders, and 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 months ended September 30, 2019 and 2018. For a more detailed discussion of the factors that affected the revenues and the operating expenses of our CF, FR and FAS business segments in these periods, see Part I, Item 2 of this Form 10-Q under the heading “Business Segments” below.

	Three Months Ended September 30,			Six Months Ended September 30,		
($ in thousands)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Revenues	$ 272,810	$ 274,992	(1)%	$ 523,159	$ 494,994	6 %
Operating expenses:						
Employee compensation and benefits	174,638	175,321	— %	337,949	314,501	7 %
Non-compensation	53,019	43,496	22 %	92,280	84,188	10 %
Total operating expenses	227,657	218,817	4 %	430,229	398,689	8 %
Operating income	45,153	56,175	(20)%	92,930	96,305	(4)%
Other (income)/expense, net	(1,101)	(1,007)	9 %	(2,748)	(2,613)	5 %
Income before provision for income taxes	46,254	57,182	(19)%	95,678	98,918	(3)%
Provision for income taxes	13,144	17,063	(23)%	19,793	29,115	(32)%
Net income attributable to Houlihan Lokey, Inc.	$ 33,110	$ 40,119	(17)%	$ 75,885	$ 69,803	9 %

Three Months Ended September 30, 2019 versus September 30, 2018

Revenues were $272.8 million for the three months ended September 30, 2019, compared with $275.0 million for the three months ended September 30, 2018, representing a decrease of (1)%. For the quarter, CF revenues increased 7%, FR revenues decreased (17)%, and FAS revenues increased 9% when compared with the second quarter ended September 30, 2018.

Operating expenses were $227.7 million for the three months ended September 30, 2019, compared with $218.8 million for the three months ended September 30, 2018, an increase of 4%. Employee compensation and benefits expense, as a component of operating expenses, remained relatively flat at $174.6 million for the three months ended September 30, 2019, compared with $175.3 million for the three months ended September 30, 2018. The Compensation Ratio was 64.0% for the three months ended September 30, 2019, compared with 63.8% for the three months ended September 30, 2018. Non-compensation expense, as a component of operating expenses, was $53.0 million for the three months ended September 30, 2019, compared with $43.5 million for the three months ended September 30, 2018, an increase of 22%. The increase in non-compensation expense was primarily attributable to an increase in Rent expense and Other operating expense as a result of the consolidation of offices into a new location in London.

Other (income)/expense, net increased 9% to $(1.1) million for the three months ended September 30, 2019, compared with $(1.0) million for the three months ended September 30, 2018, primarily due to slightly higher interest (income) generated by our Investment securities and interest (income) on our Cash and cash equivalents.

The provision for income taxes for the three months ended September 30, 2019 was $13.1 million, which reflected an effective tax rate of 28.4%. 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 decrease in the Company's tax rate during the three-month period ended September 30, 2019 relative to the same period in 2018 was primarily a result of re-measurement of deferred taxes in 2018 for changes in statutory tax rates in various jurisdictions.

Six Months Ended September 30, 2019 versus September 30, 2018

Revenues were $523.2 million for the six months ended September 30, 2019, compared with $495.0 million for the six months ended September 30, 2018, representing an increase of 6%. For the six months ended September 30, 2019, CF revenues increased 4%, FR revenues increased 9%, and FAS revenues increased 6% when compared with the six months ended September 30, 2018.

Operating expenses were $430.2 million for the six months ended September 30, 2019, compared with $398.7 million for the six months ended September 30, 2018 an increase of 8%. Employee compensation and benefits expense, as a component of operating expenses, was $337.9 million for the six months ended September 30, 2019, compared with $314.5 million for the six months ended September 30, 2018, an increase of 7%. The increase in employee compensation and benefits expense was primarily a result of higher fee revenues for the six-month period when compared with the same period last year. The Compensation Ratio was 64.6% for the six months ended September 30, 2019, compared with 63.5% for the six months ended September 30, 2018. Non-compensation expense, as a component of operating expenses, was $92.3 million for the six months ended September 30, 2019, compared with $84.2 million for the six months ended September 30, 2018, an increase of 10%. The increase in non-compensation expense was primarily attributable to an increase in Rent expense and Information technology and communications expense, offset by a reduction in Professional fees expense.

Other (income)/expense, net increased to $(2.7) million for the six months ended September 30, 2019, compared with $(2.6) million for the six months ended September 30, 2018, primarily due to slightly higher interest (income) generated by our Investment securities and interest (income) on our Cash and cash equivalents.

The provision for income taxes for the six months ended September 30, 2019 was $19.8 million, which reflected an effective tax rate of 20.7%. 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 decrease in the Company's tax rate during the six months ended September 30, 2019 relative to the same period in 2018 was primarily a result of the vesting of stock that occurred in April and May 2019.

Business Segments

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

	Three Months Ended September 30,			Six Months Ended September 30,		
($ in thousands)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Revenues by Segment						
Corporate Finance	$ 155,981	$ 146,057	7 %	$ 289,570	$ 278,928	4 %
Financial Restructuring	77,276	92,684	(17)%	156,630	143,160	9 %
Financial Advisory Services	39,553	36,251	9 %	76,959	72,906	6 %
Revenues	$ 272,810	$ 274,992	(1)%	$ 523,159	$ 494,994	6 %
Segment Profit [1]						
Corporate Finance	$ 42,688	$ 43,803	(3)%	$ 80,116	$ 83,899	(5)%
Financial Restructuring	23,588	29,449	(20)%	47,565	41,803	14 %
Financial Advisory Services	8,940	6,671	34 %	17,221	14,086	22 %
Total Segment Profit	75,216	79,923	(6)%	144,902	139,788	4 %
Corporate Expenses [2]	30,063	23,748	27 %	51,972	43,483	20 %
Other (income)/expense, net	(1,101)	(1,007)	9 %	(2,748)	(2,613)	5 %
Income Before Provision for Income Taxes	$ 46,254	$ 57,182	(19)%	$ 95,678	$ 98,918	(3)%
Segment Metrics						
Number of Managing Directors						
Corporate Finance	119	106	12 %	119	106	12 %
Financial Restructuring	45	45	— %	45	45	— %
Financial Advisory Services	32	35	(9)%	32	35	(9)%
Number of Closed Transactions/Fee Events [3]						
Corporate Finance	69	62	11 %	130	131	(1)%
Financial Restructuring	17	20	(15)%	42	33	27 %
Financial Advisory Services	523	469	12 %	821	771	6 %

(1) 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. Segment Profit may vary significantly between periods depending on the levels of collaboration among the different segments.

(2) Corporate expenses represent expenses that are not allocated to individual business segments such as office of the executives, accounting, information technology, compliance, legal, marketing, and human capital.

(3) Fee Events applicable to FAS only; a Fee Event includes any engagement that involves revenue activity during the measurement period with a revenue minimum of $1,000.

Corporate Finance

Three Months Ended September 30, 2019 versus September 30, 2018

Revenues for CF were $156.0 million for the three months ended September 30, 2019, compared with $146.1 million for the three months ended September 30, 2018, representing an increase of 7%. Revenues increased primarily due to an increase in the number of closed transactions when compared to the same quarter last year.

Segment profit for CF was $42.7 million for the three months ended September 30, 2019, compared with $43.8 million for the three months ended September 30, 2018. 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, 2019 versus September 30, 2018

Revenues for CF were $289.6 million for the six months ended September 30, 2019, compared with $278.9 million for the six months ended September 30, 2018, representing an increase of 4%. Revenues increased primarily due to an increase in the average transaction fee for closed transactions when compared to the same period last year.

Segment profit for CF was $80.1 million for the six months ended September 30, 2019, compared with $83.9 million for the six months ended September 30, 2018. Profitability decreased primarily as a result of higher compensation expenses and non-compensation expenses as a percentage of Revenues when compared to the same period last year.

Financial Restructuring

Three Months Ended September 30, 2019 versus September 30, 2018

Revenues for FR were $77.3 million for the three months ended September 30, 2019, compared with $92.7 million for the three months ended September 30, 2018, representing a decrease of 9%. Revenues decreased primarily as a result of a decrease in the number of closed transactions and a reduction in the average transaction fee when compared to the same quarter last year.

Segment profit for FR was $23.6 million for the three months ended September 30, 2019, compared with $29.4 million for the three months ended September 30, 2018, a decrease of (20)%. Profitability decreased primarily as a result of lower Revenues and higher non-compensation expenses as a percentage of Revenues.

Six Months Ended September 30, 2019 versus September 30, 2018

Revenues for FR were $156.6 million for the six months ended September 30, 2019, compared with $143.2 million for the six months ended September 30, 2018, representing an increase of 9%. The increase in Revenues was primarily as a result of an increase in the number of closed transactions, partially offset by a reduction in the average transaction fee when compared to the same period last year.

Segment profit for FR was $47.6 million for the six months ended September 30, 2019, compared with $41.8 million for the six months ended September 30, 2018, an increase of 14%. Profitability increased primarily as a result of higher Revenues and slightly lower Employee compensation and benefits expenses and non-compensation expenses as a percentage of Revenues when compared to the same period last year.

Financial Advisory Services

Three Months Ended September 30, 2019 versus September 30, 2018

Revenues for FAS were $39.6 million for the three months ended September 30, 2019, compared with $36.3 million for the three months ended September 30, 2018, representing an increase of 9%. Revenues increased primarily as a result of an increase in the number Fee Events when compared to the same quarter last year.

Segment profit for FAS was $8.9 million for the three months ended September 30, 2019, compared with $6.7 million for the three months ended September 30, 2018, an increase of 34%. Profitability increased primarily as a result of higher Revenues and lower Employee compensation and benefits expenses as a percentage of Revenues.

Six Months Ended September 30, 2019 versus September 30, 2018

Revenues for FAS were $77.0 million for the six months ended September 30, 2019, compared with $72.9 million for the six months ended September 30, 2018, representing an increase of 6%. The increase in Revenues was primarily the result of our continued success in providing fairness and valuation opinions to our financial sponsor and corporate clients, increased market share in valuation services provided to corporate clients, and expansion of our dispute resolution practice. FAS generated 821 fee events in the six months ended September 30, 2019, versus 771 fee events for the six months ended September 30, 2018.

Segment profit for FAS was $17.2 million for the six months ended September 30, 2019, compared with $14.1 million for the six months ended September 30, 2018, an increase of 22%. Profitability increased primarily as a result of higher Revenues and a decrease in non-compensation expenses as a percentage of Revenues when compared to the same period last year.

Corporate Expenses

Three Months Ended September 30, 2019 versus September 30, 2018

Corporate expenses were $30.1 million for the three months ended September 30, 2019, compared with $23.7 million for the three months ended September 30, 2018. This 27% increase was primarily driven by the consolidation of offices into a new location in London.

Six Months Ended September 30, 2019 versus September 30, 2018

Corporate expenses were $52.0 million for the three months ended September 30, 2019, compared with $43.5 million for the three months ended September 30, 2018. This 20% was primarily due to higher compensation expenses and non-compensation expenses as a percentage of revenues when compared to the same period last year.

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 maintain moderate levels of cash on hand in support of regulatory requirements for our registered broker-dealer. As of September 30, 2019, we had $127 million of cash in foreign subsidiaries. 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.

During the quarter ended September 30, 2019, the Company repaid the principal balance of the Loan payable to non-affiliates assumed through the consolidation of Leonardo's Italy operations in June 2019. As of September 30, 2019 the remaining principal balance of the Loan payable to non-affiliate was $6.5 million, which included foreign currency translation adjustments and interest expense. See Note 1 and Note 10 for additional information.

As of September 30, 2019 and March 31, 2019, our unrestricted cash and cash equivalents including investment securities were as follows:

(In thousands)	September 30, 2019	March 31, 2019
Cash and cash equivalents	$ 220,248	$ 285,746
Investment securities	84,822	125,258
Total unrestricted cash and cash equivalents, including investment securities	305,070	411,004
Restricted cash [(1)]	372	369
Total cash, cash equivalents, and restricted cash, including investment securities	$ 305,442	$ 411,373

(1) Represents a deposit in support of a 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, 2019, Accounts receivable, net of doubtful accounts was $64.8 million. As of September 30, 2019, Unbilled work in process, net of doubtful accounts was $62.7 million.

Our previously active revolving line of credit pursuant to the 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., amended July 28, 2017 and August 15, 2019 (the "2015 Line of Credit"), which provided a revolving line of credit of $75.0 million, was refinanced and replaced with the 2019 Line of Credit (as defined below).

On August 23, 2019, the Company entered into a new syndicated revolving line of credit with the Bank of America, N.A. and certain other financial institutions party thereto, which allows for borrowings of up to $100.0 million (and, subject to certain conditions, provides the Company with an expansion option, which, if exercised in full, would provide for a total credit facility of $200 million) and matures on August 23, 2022 (the "2019 Line of Credit"). As of September 30, 2019, no principal was outstanding under the 2019 Line of Credit. 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. Borrowings under the 2019 Line of Credit 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 consolidated earnings before interest, taxes, depreciation and amortization of no less than $150 million as of the end of any quarterly 12-month period and certain leverage ratios including a consolidated leverage ratio of less than 2.00 to 1.00. As of September 30, 2019, we were, and expect to continue to be, in compliance with such covenants.

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:

	Six Months Ended September 30,		
(In thousands)	**2019**	**2018**	**Change**
Cash provided by (used in)			
Operating activities:			
Net income	$ 75,885	$ 69,803	9 %
Non-cash charges	38,751	33,236	17 %
Other operating activities	(101,493)	(87,182)	16 %
Total operating activities	13,143	15,857	(17)%
Investing activities	34,875	109,011	(68)%
Financing activities	(105,701)	(185,384)	(43)%
Effects of exchange rate changes on cash, cash equivalents, and restricted cash	(7,812)	(11,742)	(33)%
(Decrease) in cash, cash equivalents, and restricted cash	(65,495)	(72,258)	(9)%
Cash, cash equivalents, and restricted cash—beginning of period	286,115	300,223	(5)%
Cash, cash equivalents, and restricted cash—end of period	$ 220,620	$ 227,965	(3)%

Six Months Ended September 30, 2019

Operating activities resulted in a net inflow of $13.1 million primarily attributable to strong performance across the Company. Investing activities resulted in a net inflow of $34.9 million primarily attributable to sales or maturities of investment securities, partially offset by purchases of investment securities. Financing activities resulted in a net outflow of $105.7 million primarily related to dividends paid and share repurchases.

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.

Contractual Obligations

There have been no material changes outside of the ordinary course of business to our known contractual obligations, which are set forth in the table included in Item 7 in our 2019 Annual Report.

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 $0.6 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.

There have been no material changes to the critical accounting policies disclosed in our 2019 Annual Report. For additional information on critical accounting policies and estimates, see “Critical Accounting Policies and Estimates” in the MD&A of the 2019 Annual Report.

Recent Accounting Developments

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)*. We adopted the standard effective April 1, 2019, using the modified retrospective approach applied as of the beginning of the period of adoption. As of September 30, 2019, the Company's Operating right-of-use assets and Operating lease liabilities were $132 million and $152 million, respectively. The difference between the Operating right-of-use assets and Operating lease liabilities primarily relates to previously recorded deferred rent within Accounts payable and accrued expenses, which was effectively reclassified to the Operating right-of-use assets upon adoption.

For additional 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 primarily in U.S. dollars, pound sterling and euros, and we face foreign currency risk in our cash balances and other assets and liabilities held in accounts outside the U.S. 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 $(9,440) and $(3,695) during the three months ended September 30, 2019 and 2018, respectively, and $(13,411) and $(16,278) during the six months ended September 30, 2019 and 2018, 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 U.S. 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.

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 the quarter ended September 30, 2019, we entered into a foreign currency forward contract between the pound sterling and the U.S. dollar with an aggregate notional value of $4.8 million. In the quarter ended September 30, 2018, we entered into a foreign currency forward contract between the euro and pound sterling with an aggregate notional value of approximately EUR 10.4 million. The fair value of these contracts represented a loss included in Other operating expenses, net of $53 and $14 during the three months ended September 30, 2019 and 2018, respectively.

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, 2019.

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, 2019 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 2019 Annual Report.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in our 2019 Annual Report.

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

During the quarter ended September 30, 2019, the Company issued 1,185,978 shares of Class A common stock upon the conversion of a like number of shares of 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. See Note 15 for additional information. The Company relied upon the exemption from registration provided by Section 3(a)(9) under the Securities Act of 1933, as amended.

Purchases of Equity Securities

The following table summarizes all of the repurchases of Houlihan Lokey, Inc. equity securities during the quarter ended September 30, 2019:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs [(1)]
July 1, 2019 - July 31, 2019 [(2)]	862	$ 45.09	862	
August 1, 2019 - August 31, 2019	226,927	43.08	226,927	
September 1, 2019 - September 30, 2019	252,306	44.44	252,306	
Total	480,095	$ 43.79	480,095	$ 41,562,923

(1) In July 2018, the board of directors authorized the repurchase of up to an additional $100 million of the Company's common stock (incremental to the $50 million repurchase program that was approved by our board in February 2017). 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.

Table of Contents

Item 6. Exhibits

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	
10.1	Letter Amendment, dated August 15, 2019, by and between Houlihan Lokey, Inc., Houlihan Lokey Financial Advisors, Inc. and Bank of America, N.A.	8-K	001-37537	10.1	8/16/19	
10.2	Credit Agreement, dated as of August 23, 2019, by and among Houlihan Lokey, Inc., certain domestic subsidiaries of the borrower party thereto as guarantors, Bank of America, N.A., as the administrative agent and the L/C issuer, the lenders party thereto.	8-K	001-37537	10.1	8/26/19	
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	Inline XBRL Instance Document - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.					*
101.SCH	Inline XBRL Taxonomy Extension Schema Document.					*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.					*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.					*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.					*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.					*
104.1	Cover Page Interactive Data File - The cover page interactive data file does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.					*

* Filed herewith.

** Furnished herewith.

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 1, 2019	/s/ SCOTT L. BEISER
	Scott L. Beiser
	Chief Executive Officer
	(Principal Executive Officer)
Date: November 1, 2019	/s/ J. LINDSEY ALLEY
	J. Lindsey Alley
	Chief Financial Officer
	(Principal Financial and Accounting Officer)

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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, 2019 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 1, 2019

/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, 2019 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 1, 2019

/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, 2019 (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 1, 2019

/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, 2019 (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 1, 2019	/s/ J. LINDSEY ALLEY
		J. Lindsey Alley
		Chief Financial Officer
		(Principal Financial and Accounting Officer)

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